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Item 3 (b) of the provisional agenda*
**Items for discussion and decision: education statistics**

# Task Force on Education Statistics (convener: UNESCO Institute for Statistics)

## Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-eighth session,** the Secretary-General has the honour to transmit the report of the Task Force on Education Statistics. The report reviews the main measurement frameworks, in the field of education currently being used for purposes of data collection at the international, regional or national levels and how they impact on the production and use of statistics. The review also looks at coordination mechanisms among relevant agencies with respect to different stages of the statistical production and dissemination cycle. In addition, the report proposes possible ways to improve coordination; data collection and production and dissemination.

The Commission may wish to express its views on the substance of the report and give recommendations for future work in this area.

* E/CN.3/2008/1.

** See *Official Records of the Economic and Social Council, 2007, Supplement No. 4* (E/2007/24), chap. I.A.

07-64445 (E) 070108

# Report of the Task Force on Education Statistics

## A. Background

1. Following the thirty-eighth session of the Statistical Commission and the presentation of the report of Statistics Canada on Education Statistics (E/CN.3/2007/2), it was agreed that a task force on education statistics consisting of interested countries and agencies would be established. The Institute for Statistics of the United Nations Educational, Scientific and Cultural Organization (UNESCO) was asked to act as convener for the Task Force.

2. In that role, the UNESCO Institute for Statistics hosted a working session in May 2007, together with representatives of the United Nations Statistics Division, Eurostat, Statistics Canada and the Australian Bureau of Statistics. At the meeting the terms of reference for the report were reviewed. As a result of the session, it was agreed that a detailed review and stock-taking exercise, building on the report of Statistics Canada, should seek to identify and prioritize the key issues related to measurement frameworks for education statistics and international coordination mechanisms in terms of data collection, processing, dissemination and use. The draft terms of reference were accepted and the UNESCO Institute for Statistics was given the responsibility to engage experts in order to draft the report.

3. The Task Force was formed by the following seven countries: Australia, Brazil, Canada, Cuba, France, Russian Federation and South Africa.

4. The UNESCO Institute for Statistics contracted two international experts, Stephen Heyneman and Thomas Smith, both of Vanderbilt University (United States of America), to undertake the study. It was agreed that the review would map out the current state of education indicator frameworks in use nationally and internationally; survey international coordination mechanisms; identify potential gaps relative to emerging policy demands; and provide recommendations to the Task Force on the feasibility of various approaches to fill gaps or to improve international coordination.

## B. Study design and activities

5. The study was designed to systematically collect inputs on measurement frameworks and coordination mechanisms from data producers and users at the national (e.g., national statistical organizations and line ministries) and international levels. As of December 2007, the activities described below have been carried out.

### 1. Survey of member States

6. Using the terms of reference (see annex) for the task as a guide, Mr. Heyneman and Mr. Smith drafted a survey for Task Force members and selected other member countries (in collaboration with the UNESCO Institute for Statistics). The survey focused on the following topics:

(a) The activities (or involvement) of international agencies in the field of collecting and disseminating comparative education statistics, including UNESCO itself and other United Nations agencies, the Organization for Economic Cooperation and Development, Eurostat, the World Bank, regional development

banks and regional organizations (e.g., the Asia-Pacific Economic Cooperation, the Association of Southeast Asian Nations);

(b) The areas where these activities may be coordinated well, where they may overlap and where there may still be gaps;

(c) Suggestions and/or recommendations that would be useful to consider to improve the current practice of collection and dissemination of cross-national educational statistics.

7. The survey requested that respondents provide rubrics or conceptual frameworks used to guide the collection and reporting of education statistics in their countries. If a conceptual framework was not used, respondents were asked how they had made decisions about the kinds of education data that they had collected and reported on.

8. A draft questionnaire of the survey was peer-reviewed and the resulting comments and recommendations were used to revise it. The revised questionnaire was sent to the following Task Force members in November 2007:

| | |
|---|---|
| Australia | Dennis Trewin and Susan Linacre |
| Brazil | Carmilva Souza Flores and Gerson da Silva Barrey |
| Canada | Sange de Silva |
| Cuba | Antonio Vega Perez |
| France | Claude Sauvageot |
| Russian Federation | Mark Agranovich and Serguey Egorenko |
| South Africa | Pali Lehohla |

9. In addition to the members of the Task Force, the national statistical agencies and education ministries in 12 additional countries were sent a questionnaire: Chile, China, Costa Rica, India, Indonesia, Islamic Republic of Iran, Libyan Arab Jamahiriya, Nigeria, Qatar, Uganda, United Kingdom of Great Britain and Northern Ireland and United States of America.

10. The deadline for submitting responses to the survey was 18 December 2007 for Task Force members and 30 December 2007 for the countries listed above.

### 2. Consultations with international organizations

11. Individual consultations with international organizations were conducted in order to review existing coordination mechanisms among relevant agencies and to propose solutions, if necessary, to avoid duplication and to reduce a country-response burden, especially in terms of the following areas:

(a) Maintaining and implementing (and providing guidance to member States) international measurement standards, such as the International Standard Classification of Education;

(b) Raising the profile and extending core standard-setting work;

(c) Focusing on specific issues, including linking across standards, and treatment of historical data.

12. Towards that end, the consultants are currently in the process of interviewing individuals in international and regional organizations regarding their coordination efforts with respect to education statistics. They are also collecting and analysing conceptual frameworks and other related documents that the organizations use, in practice, to guide their data collections.

13. Interviews with representatives of OECD and Eurostat were conducted in October 2007, and with representatives of the World Bank, the United Nations Children's Fund, the United Nations Development Programme and the Statistical Commission, in December 2007. Interviews with UNESCO staff will be held in early January 2008.

## C. Timeline

14. The consultants will complete their interviews, review of documents and analyses by February 2008 and will submit a draft report for review by Task Force members and the UNESCO Institute for Statistics in March 2008. Based on the comments received, the consultants will revise the report and prepare a final report for the Task Force.

## D. Action to be taken by the Statistical Commission

15. **The Commission is invited to:**

(a) **Take note of the activities so far undertaken by the Task Force;**

(b) **Advise on the future direction of work.**

# Annex

## Terms of reference for the Task Force on Education Statistics

### Background

In accordance with a request of the Statistical Commission at its thirty-seventh session, the United Nations Statistics Division asked Statistics Canada to undertake a review of educational statistics. The report was presented to the Statistical Commission at its thirty-eighth session.

The Statistical Commission:

- Welcomed with appreciation the report, took note of the recommendations contained therein and requested Statistics Canada to provide the full report to all members and observers of the Commission;
- Agreed to set up a Task Force on Education Statistics consisting of interested countries and agencies and asked the UNESCO Institute for Statistics (UIS) to be the Task Force convener;
- Welcomed the proposal by UIS to organize an international working session on education statistics as soon as possible in 2007 to provide input to the workplan of the Task Force;
- Requested the Task Force to develop its workplan, begin its implementation and submit a progress report to the Commission in 2008.

### Tasks

The Task Force will undertake the following tasks:

(i) further reviewing and analysing the accumulated experience of countries and various agencies.

*The paper presented to the Statistical Commission represents the views of one country. It needs to be completed by a deeper analysis of the situation, involving other countries and international agencies, especially on its two major conclusions, i.e., the lack of shared conceptual foundations and limited cooperation.*

*The framework should build on what currently exists in international agencies and national office and, identify the common and diverging needs of developed and developing countries and international agencies and the possible means of meeting them in the most coherent, comparable and unduplicated way possible.*

(ii) reviewing existing conceptual frameworks for international education statistics that have a strong emphasis on outcomes.

*The review should cover what currently exists in international agencies and national offices, identify the common and diverging needs of developed and developing countries and international agencies and possible means of meeting them in the most coherent, comparable and unduplicated way possible. The review should pay special attention to the following items:*

- *Scope and coverage*
- *Underlying model and relationships between key elements*
- *Identification of definitions and classifications*

(iii) reviewing coordination mechanism among relevant agencies and proposing new arrangements, if necessary, to avoid duplication of tasks and to reduce country response burden.

In a second stage, if there has been agreement on the need for an international conceptual framework, the Task Force may develop said framework and additionally identify a core set of indicators.

**Composition**

The Task Force should comprise national experts from developing and developed countries and from international agencies (UNESCO Institute for Statistics, Organization for Economic Cooperation and Development, Eurostat, Statistics Division). The proposed list of countries includes Australia, Brazil, Canada, Cuba and the Russian Federation, which have already expressed their interest in participating, and a country from Africa, most likely South Africa.

The Task Force will be co-chaired by the UNESCO Institute for Statistics and Canada.

The UNESCO Institute for Statistics will serve as secretariat of the Task Force, will take care of preparation and reporting and organizing meetings and will maintain regular communications with Task Force members.

**Time frame**

The international working session on education statistics will be organized by the UNESCO Institute for Statistics as soon as possible in 2007 to provide input to the workplan of the Task Force. The Task Force should start its work before June 2007 in order to present a first report on its activities to the Statistical Commission at its thirty-ninth session, in March 2008.

The final report is expected by December 2008.

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Item 3 (c) of the provisional agenda*
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**International Comparison Programme**

# Friends of the Chair: review of the International Comparison Programme, 2005 Round

## Note by the Secretary-General

The Secretary-General has the honour to transmit the report of the Friends of the Chair on the review of the International Comparison Programme (ICP), 2005 Round. The present report includes the results of an evaluation by the Friends of the Chair assessing the scope, activities and lessons learned from the current round of ICP. It provides recommendations where improvements can be made and a proposal by the Friends of the Chair concerning the continuation of the programme. The points for discussion are presented in paragraph 119.

* E/CN.3/2008/1.

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# Report of the Friends of the Chair: review of the International Comparison Programme, 2005 Round

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# I. Introduction

1. The Friends of the Chair (FOC) report provides a review of the International Comparison Programme (ICP), governance structure and experiences as perceived by parties involved. The review is partly based on self-assessment reports from the organizations that are part of the governance structure, such as the Global Office/World Bank and reports from the Regional Agencies. The report provides a review of the partnering arrangements based on material received from the institutions involved and evaluates initiatives for capacity-building. Moreover, the report draws conclusions based on survey results, reflecting on experiences of the participating countries.

2. The final evaluation of how the ICP governance in general has worked depends upon the outcome and quality of the final results. Some regional results have been released presenting differences in price levels and ranking according to the Gross Domestic Product (GDP) per capita. The regional results that have been published so far, and the final global results that will be released later this year, must, in addition, pass the in-depth analysis to be made by the user environment.

3. The report discusses ICP issues and provides recommendations in favour of the continuation of the ICP. These recommendations are partly based on the review of the users' point of view as concerns the ICP performed in August 2007. The FOC surveys provide relevant and important information on governance as experienced on regional and national levels. In part IV the focus is on main elements of the governance structure, and other challenges faced by the ICP, followed by a discussion on the continuation of the ICP. Policy implications and recommendations are emphasized in frames. Section V of the report contains concluding remarks.

# II. The ICP background

## A. Why do we need PPPs?

4. The basic idea behind purchasing power parity is revealed by its name. The idea is simply that a given amount of money should have the power to purchase the same amount of goods and services everywhere. However, as easy as it is to grasp the rationale behind the PPP idea, the practical computation of such parities is overwhelmingly hard. First, a major area of concern is the goods or services that cannot be traded, so one needs to clarify how to deal with non-tradables. Second, to identify identical goods and services across economies is a formidable challenge. Third, even if one would find similar goods, one is still left with the question of how to combine them into a representative consumer basket. Fourth, collecting prices sounds straightforward, but is far from it, especially when one considers the daunting task of collecting prices while holding quality constant. Finally, collecting and combining prices of one basket is a daunting task for any country. Needless to say, when one aims at constructing an apparatus intended to be followed and utilized in all countries across the globe, the problems multiply. Still, that is actually the ambition taken on board in the ICP.

5. By using PPPs as conversion factors, the resulting comparisons of GDP volumes enable us to measure the relative social and economic well-being of countries, monitor the incidence of poverty, track progress towards the Millennium

Development Goals (MDGs) and target programmes effectively. PPPs also assist international markets by identifying the relative productivity and investment potential of different countries.

6. In addition, PPP-rates may be used as benchmark to establish exchange rates when new economies introduce new currencies. They may be used to forecast market exchange rates, under the additional assumption that market rates tend toward PPP-rates in the long run. The increased need for PPPs also arises from the evolvement of international voting rights and loan terms, and global climate change initiatives.

7. The PPP-adjusted GDP numbers are essential as complement to GDP measures in constant prices, complementary in the sense of providing comparisons in space (between countries) in addition to the more familiar comparisons in time (within a country). The two sets of estimates will play important roles in explaining economic growth in a world of rapidly expanding international trade and investment. Thus, PPP-adjusted GDP numbers will add substantially to the system of international economic statistics required to inform policymaking, monitoring and evaluation.

## B. The International Comparison Programme

### 1. Brief history

8. The ICP goes back to the late 1960s, starting with a small project comprising 10 countries in 1970. Further ICP rounds have been conducted in 1975, 1980, 1985, 1990 (only partial), and 1993. By the time of the last round, the ICP had become a global programme, covering 118 countries and all regions of the world.

9. Since 1985, the World Bank has had the role of global coordinator for the ICP in non-OECD (Organization for Economic Cooperation and Development) countries. The 2005 round of the ICP marks a turning point in the programme with the aim to meet criticisms levelled at the ICP and the quality problems summarized in the Ryten report.[1]

10. The Ryten report forwarded an in-depth criticism of the ICP 1993-1996 round mainly on detailed level. Much of the same criticisms were put forward in a report prepared by Castles,[2] mainly working with European data and in Fombellida and Varjonen[3] working with 1993 African data. The Ryten report was linked to a data-breeding problem. The problem was due to poor management and supervision of country-level data collection, data editing and processing and the lack of coordination between national statistical institutes (NSI) and the regional coordinators. The problems in turn caused the lack of credibility among stakeholders. The report also pointed at insufficient funding and the absence of a credible international coordinator and stressed the need for expanding the user environment.

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[1] Report on evaluation of the International Comparison Programme (E/CN.3/1999/8, United Nations, New York, 1999) by Jacob Ryten.

[2] Review of the OECD-Eurostat PPP Programme (STD/PPP (97)5, OECD, Paris, 1997) by Ian Castles.

[3] Raimundo Fombellida and Seppo Varjonen, External Evaluation of the International Comparison Programme, African Region: Phase VI (Luxembourg, Eurostat, 1996).

11. Based on the recommendations of the Ryten report, a new strategic framework was prepared in 2000-2001 by the World Bank in collaboration with a number of international, regional and national agencies. The Global Office, located in the World Bank, has been responsible for the actual management and coordination of the 2005 round. NSIs have implemented the programme on the ground, under the general guidance and coordination of regional agencies.

12. The governance arrangements were addressed at the thirty-third session of the United Nations Statistical Commission (UNSC) in 2002 in a project proposal prepared by the World Bank with input from the FOC in place at that time. The proposal called for an international governing body, an advisory body, and an international secretariat.

13. The status report to the UNSC in 2003 described the new governance structure containing the ICP Executive Board, the Regional Coordinators and the ICP Council. An Executive Board was established in 2002 being responsible for the implementation of the overall strategic framework as well as monitoring progress. In a meeting in February 2003 the Board asked that the Global Office appoint a number of experts to serve on a Technical Advisory Group (TAG) to provide technical advice and monitor data quality. The Global Manager was assigned to the ICP Global Office in the World Bank in November 2002. Due to several reasons the ICP Council was not given high priority from the beginning. The issue was more firmly set on the Executive Board agenda in 2006 leading to a decision taking the Council out of the governance structure. The Council was replaced by a Forum to serve the need for communication with user environments and comprising the same groups of stakeholders. A first meeting for the Forum is scheduled to mid-2008.

14. The ICP is a large and complex statistical initiative. The ICP 2005 round covers five regions and 102 countries. The results will be combined with the OECD/Eurostat PPP programme covering 45 countries, bringing the total to about 150 countries. The programme uses a series of statistical surveys to collect price data for a basket of goods and services, covering all components of GDP.

## 2. UNSC mandate

15. At its thirty-eighth session in 2007 the UNSC agreed to establish a Friends of the Chair (FOC), consisting of representatives of participating countries, constructed to evaluate the current ICP with respect to its scope and activities and make a proposal on the desirability of a new round.

16. Specifically, the FOC should seek to deliver:

(a) An evaluation of the effectiveness of the global, regional, and national levels of governance in the implementation and conduction of the programme.

(b) A review of the technical programme, including the ICP Handbook and the ICP Tool Pack.

(c) An evaluation of the first regional results.

17. In May 2007 the FOC received a draft framework for conducting the ICP review. The framework was divided in two phases:

(a) **Phase 1** should comprise a review of the ICP governance structure partly based on questionnaires surveying the participating countries' experiences during the 2005 round. In addition, self-assessment reports would be required from organizations being part of the governance structure, such as the Global Office/World Bank and the Regional agencies. This phase should also comprise a review of the users' general point of view as concerns the ICP taking into account that the 2005 round results would not be available until December 2007. The FOC should review lessons learned from the 2005 round and offer recommendations where improvements can be made. A report from phase 1 should be prepared and delivered in December 2007 for the thirty-ninth session of UNSC in February 2008.

(b) **Phase 2** should comprise an overall evaluation of the current ICP round, including a closer evaluation of methodological issues and an overall assessment of quality based on the empirical results. A joint project involving FOC and ICP Executive Board should be decided drawing partly on external competence (outsourcing).

### 3. The Friends of the Chairs working methods

18. In Phase 1 the FOC review has focus on governance aspects in general, and special emphasis on governance aspects as experienced from a national perspective. Information about the ICP governance structure, the entities being involved, their roles and responsibilities and the communication is in large well documented. This comprises minutes from the meetings held in the Executive Board, the TAG and for the regional coordinators meetings. When it comes to governance in practise, as experienced on national level, less is known. Below, a brief overview of the sources used and the questionnaires that have been employed for the review is given.

(a) A survey directed towards all countries participating in the regular ICP 2005 round. The questionnaire covers a number of subject areas with main focus on governance issues, such as the basis for decision-making and communication.

(b) A survey comprising countries participating in the Ring comparison. The questionnaire follows the structure outlined for the regular questionnaire.

(c) A request asking for the users' views on the ICP. This part comprises 45 international organizations.

(d) Self-assessment reports prepared by the organizations involved in the present ICP round. This part comprises reports from the Global Office/World Bank, some of the regional agencies — and NSIs being involved in the partnering arrangements.

19. In addition to these instruments there have been meetings with the Global Office, World Bank, International Monetary Fund (IMF) and members of the TAG. Important additional background information have been found in the annual ICP reports to UNSC, the ICP handbook, operational manuals, Newsletter articles to mention some.

## III. Experiences from the ICP 2005

20. This section presents the surveys conducted and the main results.

## A. Users' point of view

21. On 8 June 2007, a letter from the convenor of the FOC group was sent out to 45 international organizations asking for their view as users of PPPs produced by the ICP. The users were asked to give a brief view of the organization's current and future needs for PPPs and PPP-based indicators and by answering the following questions:

(a) The organization's actual or intended use of these indicators. Are they used as a basis for actual decision-making, or are they needed primarily for analytical purposes, for example in research?

(b) Does your organization intend to include PPP-based indicators in any of your regular publications?

(c) What is your organization's opinion on the desirability of another ICP round (tentatively scheduled for 2010)?

(d) Does your organization have any views on ICP at the more general level?

22. It is a common view expressed by the users that the availability of high quality PPP and PPP-related indicators are important. PPPs are used for commercial purposes, policy-making, but even more frequent in research and for analytical purposes. It is emphasized that PPPs are used as a benchmark for making international comparisons for economic policy making or economic analysis.

23. The majority of the users publish PPP-based indicators. The demand for the indicators seems high and is assumed to increase in the future given the process of globalization of the world economy. Indicators measuring standards of living and poverty are frequently demanded. As the forecasts of regional poverty levels receive strong public attention, United Nations Conference on Trade and Development (UNCTAD) would even support the computation of poverty-specific PPPs.

24. The ICP is seen as a valuable and major step forward, and the answer to whether there should be another round of ICP in 2010 is unarguably affirmative. It is emphasised that this is feasible only as long as the data are timely, reliable and available across a large number of countries. The opinion is expressed that in future the list of developing countries participating should be expanded.

25. A close cooperation between the United Nations and the World Bank in calculating PPPs is appreciated. The alternative, a number of uncoordinated PPP adjustments, which may differ substantially among various institutions, is clearly unwanted. The substantial initial costs of building consensus on methodologies, and in training national experts, are viewed as strong arguments for continuing the present programme. It is mentioned that PPP data could be more disaggregated, e.g. for GDP components, including imports and exports. It is also important that the methodology for the compilation of PPPs is comparable across the European Union (EU), the OECD and the rest of the world. Therefore, a continued strong cooperation between the OECD/Eurostat and the ICP should be emphasised. Further convergence of methods and possible integration of different programmes seem desirable.

## B. The Friends of the Chair surveys

26. The FOC have conducted two surveys:

(a) The *Regular survey* covering all countries participating in the ICP 2005 round.

(b) The *Ring survey* covering countries taking part in the Ring comparison.

27. The regional agencies or coordinators are part of the survey populations. Both surveys have a focus on governance.

28. The main results from the two surveys are presented below, with focus on general governance issues. Where relevant, links have been drawn to the more technical parts of the surveys to underline the variations found in responses.

29. A more detailed document presenting the surveys, the methods and results will be prepared and made available as a room document at the thirty-ninth session of UNSC in February 2008.

### 1. The Friends of the Chair regular survey

30. The survey population encompasses all 147 countries participating. The ICP covers 6 regions — number of countries participating given in parenthesis: Africa (48), Asia-Pacific (23), Western Asia (11), Latin America (10) and Commonwealth of Independent States (CIS) (10). The Eurostat/OECD group (45) has for decades been organised outside the ICP.

31. The first five regions (ICP group) are under the auspices of the ICP and managed from the Global Office. Regional agencies — being part of the governance structure — have the responsibility for the intra regional coordination — support to participating countries.

32. By the end of October 2007 77 countries have replied. Of these, 19 are from Africa, 15 from Asia-Pacific, 3 from Latin America, 3 from Western Asia, 4 from CIS and 33 countries have participated in the Eurostat/OECD region. The overall response rate is 53 per cent though differing somewhat across regions. Most of the large countries (in population and economy) have responded; 68 of the countries responding have participated on the basis of a full GDP coverage, while 9 countries have participated in the consumption part only or on a test basis.

#### Premises for participation in future ICP surveys

33. A large majority of the ICP group countries are satisfied (41 out of 44) with their participation in the 2005 round and confirms that they would participate in a next round based on the current round experiences.

34. Comments from the countries confirm that the ICP has had wide positive effects on the national statistical programmes — both in the field of price statistics and national accounts (NA). The ICP meant substantial contributions in building national statistical capacities (institutional and technical) both in larger and smaller countries. Credit is also given to many of the regional agencies for their support — both financially and in providing assistance on technical/methodological problems. Participants also honour the work done in improving the statistical base for cross-

country comparisons as well as the contribution from the programme to improve the statistical basis for enlightening poverty problems.

35. The countries not being satisfied or reluctant as concerns future participation have in common that they are newcomers or fairly new to the ICP. They include also large economies in their respective regions. A few comments from a couple of the countries could be forwarded to give some insight to the positions taken:

> "*In spite of all shortcomings and limitations of the data, it is appreciated that a lot of efforts has been put in the current phase of ICP to overcome the problems faced in the earlier rounds. However, keeping in view the multifarious complexities involved in this gigantic exercise of computing PPPs, we have still to traverse quite a long path before these numbers are considered reliable and representing the ground realities.*"

> "*But many practical problems have lowered the accuracy and quality of PPPs, for instance, deviation from the basic ICP principle that representativity and comparability in ICP should be balanced, because of wide differences in levels of economic development, income and consumption modules among participating countries in the Asia Pacific region, nothing to do for guidance on quality adjustment. It is obvious that the PPPs from the current ICP round underestimated the price level of our country. Problems encountered in this round of ICP must be urgently resolved prior to the next round.*"

36. The critical comments also include governance issues regarding how the centrally managed surveys (housing, construction) were conducted. The points made on methodological and structural issues as well urge for action before launching a new ICP round.

**Some general governance issues**

37. As concerns the attitudes on whether the communication on the various aspects of the programme was effective, a majority of the countries (65 out of 77) are positive. A similar share of countries answer that there were sufficient opportunities to provide input into decisions made. The shares are in large the same within the ICP group and the OECD/Eurostat group.

38. The overall positive attitude is noticeable, considering that the ICP survey programme was delayed from the start. The ongoing process of developing new methodology created problems in several ways and further delays. Although the benchmark year was adjusted from 2003 to 2005 the communication processes ran short of time. The overall results might reflect that the participants have adapted to the changes in the premises.

39. Some of the participants, however, argue that communication and the decision process in periods have been unilateral and mandatory. To some extent, this reflects that a number of countries experienced large extra workloads due to delays in time schedules for parts of the survey programme. The same applies to important governance elements involved in how the centrally managed surveys were handled including the access to data collected.

The Global Office is responsible for establishing clear guidelines for how coordination between different levels should be carried out. A lesson learned is that the communication between regional and national coordinators needs to be improved.

40. Forty-nine out of 77 countries confirm that the various parts of the ICP had a significant impact on the workload of the NSIs. The share of the ICP group answering affirmative was 77 per cent while 45 per cent for OECD/Eurostat.

41. The extra workload was large for countries which had to price several hundred products outside their Consumer Price Index (CPI) baskets. For countries having well developed CPI systems and flexible resources for handling such situations this was handled without severe problems. For countries with less developed statistical systems the additional workload required resources not being available, causing further delays. Still, most countries understand that the ICP survey programme should cover additional products outside the national CPI baskets. A better balance should be found ensuring price comparisons across countries while keeping the extra burden to a minimum.

A lesson learned is that the extra workload pricing several hundred products outside their CPI baskets in the present round was too large.

42. In all regions the programmes have influenced the efforts towards integrating the ICP into the national statistical price programmes. Close to half of the countries (36 out of 77) confirm that such initiatives have been taken during the current round. For the ICP group 64 per cent of the countries report that such efforts have been taken. In the OECD/Eurostat group a corresponding share of countries is 24 per cent.

43. An important element of the ICP 2005 round has been the adoption of a full GDP coverage. This applies to most countries, while some minor countries have participated in the household consumption part only. For GDP components like housing and construction new/alternative methods were developed for which the adequate national statistical basis were not in place. Owing to this, parts of the survey programme have been conducted using a centrally managed approach, often without or only limited national involvement.

44. Most countries seem to accept the arguments for a central approach. The attitude is positive/mainly positive as concerns the centrally managed surveys. 55 per cent of the ICP group supports this concept. When responding to the more technical subject areas covering health products, education and government and housing a large majority in the ICP group — both small and large economies — argue for increasing national involvement in future rounds. Some serious critics have been formulated by some of the larger economies.

A lesson learned is that the communication aspects involved in the centrally managed surveys require further attention.

45. The survey has revealed a discussion on ownership issues, especially within the ICP group. The comments provided by one of the countries could illustrate the perspective of the discussions.

> *"The issue of ownership is very important, particularly in the context of the PPP results being dependant not only on one's own country data but also on the data being furnished by other countries. The quality, coverage and conceptual issues and their uniform practice across the countries is essential for a country to own the ICP results. The responsibility of the participating country at present is mainly to provide reliable data of the respective country as per the specifications finalised by the implementing agency; but at the same time reliability of the PPP results depends upon the methodology followed and accuracy of data of other participating countries.*
>
> *However, from the credibility point of view it is desirable to integrate ICP with the CPI. Also, as a participating country, we had reservations on the methodology followed in some areas, the reliability of data provided by some countries, and other conceptual and practical issues."*

## 2. The Friends of the Chair Ring survey

46. The Ring questionnaire was sent out to 17 countries all participating in the ICP Ring comparison plus the regional agencies and coordinators. By end of September 2007, 16 of the countries and 3 of the regional agencies have replied. In total the response rate is above 90 per cent. A number of qualified comments have been given.

### Premises for participation in future ICP surveys

47. A large majority of the respondents are satisfied with their participation in the Ring comparison. 81 per cent (13 out of 16) are positive with the participation in the 2005 round.

48. Although, the attitude is mainly positive, it is not without reservations. The participating countries stress that the Ring comparison ran into a number of problems. Owing to delays in the regular ICP surveys, the Ring comparison started too late in the process and lost the flexibility needed to make adjustments underway. Problems with product specification, language problems, communication problems, too many consumption products on the list and differing product quality across regions etc. have all added to the national workload. A number of countries express doubts about the quality of price data collected for the Ring comparison.

49. A common concern of the countries is the lack of communication among the parties involved. There were in advance expectations that a common validation meeting comprising all Ring countries would contribute to solve some of the known problems with product lists and regional differences in product quality.

50. Most of the participating countries are of the opinion that the current experiences provide a basis for having a Ring comparison role in a next round.

Three of the countries look at this differently and express views against having such a role. Two of the countries pointing at the extra workload belong to the Eurostat/OECD group. The disclosure of data collected in the centrally managed surveys was the main issue for the ICP country.

> A lesson learned is that the Ring programme needs to be carefully evaluated to determine the number of countries to include, and the number of products to be priced. It should not go forward without involving the countries in the product selection and data validation efforts.

51. Several of the countries provide suggestions for changes to be made in future Ring rounds. It is recommended that the participating countries should be selected at an early stage of the next ICP round. Decisions on product lists should be made at an early stage and combined with pre-surveying when needed. Initiatives need to be taken to improve communication — in all stages — within and across regions. A joint meeting including all participating countries should have high priority. It is argued that many of the data problems could have been identified and solved at an early stage. A seemingly minor issue — though actually very important — is that the Ring countries must have enough time for translation of the product lists. Separate funding for the Ring exercise seems required.

> A lesson learned is that important aspects of communication fell short in the 2005 round. The issues should be discussed and decided on before launching a next round Ring survey.

# IV. Main ICP challenges

## A. Governance structure

52. An overall picture of the ICP governance structure is presented in the figure below. As mentioned in section II.B, the Executive Board is the decision-making and strategic body. The Global Office, being the secretariat of the Executive Board, is responsible for the overall coordination of the ICP. The TAG provides research and advice on technical issues and communicates closely with the Global Office. The Regional Offices coordinate and support the NSIs in implementing the comprehensive survey programmes. Regional Advisory Boards have been established for most regions.

53. The figure indicates the partnering arrangements between the regional agencies and one or more NSIs, which have proven to be very useful, and the OECD/Eurostat programme, being a separate programme and not a region within the ICP.

**Figure 1: Governance Structure**

54. Overall the governance structure has worked quite well, according to the responses of the parties involved. The designed structure has proven capable to handle some main challenges and problems previously discussed in reports to the UNSC. The new structure and the management initiatives taken have turned the ICP into an efficient global system, providing a solid basis for handling challenges in future rounds. However, there are some elements of the governance structure that needs to be evaluated or developed to improve the overall transparency and functioning of the system.

## 1. The Executive Board

55. At the beginning of a next ICP round the Executive Board representatives should be reconsidered.

56. Presentations of the roles and responsibilities of the Executive Board are found in the ICP Handbook and ICP website. Members of the Executive Board were initially appointed by the previous FOC group of the UNSC. A principle was that the membership of the Executive Board should reflect the composition of the regions taking part in the global programme, and all members were elected to serve for three years in their own individual capacities. In practise this is not how it turned out to be. The members of the Board represent their organizations and when a member was absent or left the organization, the replacement was from the same organization. These principles are also built into Memorandums of Understanding (MoU) with some organizations such as OECD/Eurostat.

57. The Board size limit is 16 members according to the ICP Handbook. The 2007 Board has 18 members of which two have limited participation. It is emphasised

that the Board is able to co-opt new members if and when the need arises, subject to the overall size limit.

58. The permanent members include the World Bank, IMF, United Nations Statistics Division (UNSD), Eurostat, OECD, and a representative from each regional coordinating organization. A number of reasonable arguments could be seen for having permanent memberships for parts of the Executive Board. A permanency for the main donors, user organizations, regional agencies allow for stability and continuity in the Executive Board as well as for the organizations. The competence and capacities of these members are in general important for discussions and decisions on ICP strategies.

59. As concerns the group of rotating members the criteria for membership needs clarification, first of all for the sake of transparency. In addition to the personal qualifications and experience (seniority), emphasis has been on including representatives for large regions and from major countries or economies in the regions.

60. There seems to be a tradition that the appointed FOC, at the end of a current round, should express opinions and take a role in forming a new Executive Board. This FOC points at the need for a transparent system for appointing rotating members.

> There is a need for establishing a transparent system for appointing the rotating members of the Board.

## 2. Global Office

61. The ICP Global Office is located at the World Bank's headquarters in Washington, D.C. Its activities are financed from the ICP Global Trust Fund established at the World Bank and follows World Bank administrative and fiduciary rules and regulations. The Global Office reports, through the ICP Global Manager, to the Director of Development Data Group (DECDG) in the World Bank. On matters related to the execution and implementation of the ICP mission, its policy, programmes, priorities and standards, the Global Manager acts within the directives provided by the Executive Board and within the framework of the work programmes and budgets approved by the Board.

62. There is evidence that the World Bank has done a very competent job. However, in practice the World Bank has been more than the host of the Global Office. This became more and more evident as the programme progressed and issues emerged regarding the confidentiality of data, workplans, staffing, and funding. When the World Bank agreed to host the ICP, it became a part of the DECDG work plan making its director accountable to the World Bank for the programme. When issues emerged about the location of the global data base and confidentiality, it was World Bank rules that prevailed with the DECDG director accountable for both, not the Global Office.

63. Usually most issues encountered have been resolved due to effective communication between the Chair of the Executive Board and the Director of DECDG in the World Bank. Even for future rounds there will be grey areas that

require ongoing effective communication between the Chair of the Executive Board and the institution hosting the Global Office. For the future the role of the host organization needs to be recognized and clarified. The twin roles and respective responsibilities of the Global Manager to the host organization and the Executive Board should be addressed as well.

64. A document with terms of reference clarifying the future roles and responsibilities of being a host organization should be prepared. The document should address the responsibilities of the Global Manager to the host organization as well as the reporting and relations to the Executive Board.

65. The Global Office's role as a secretariat for the Executive Board should be clarified. The Office is responsible for coordinating different parts of the ICP programme, including strategic, operational and technical issues. The Global Office should report mainly to the Executive Board, and not to the host institution.

> Terms of reference should be prepared, clarifying the roles and responsibilities of being the host organization.

66. Before deciding on a next round host organization it should be discussed whether the experiences made from the current round should lead to some amendments in how to organize the Global Office. Ahead of the next round a staffing plan should be prepared and agreed from the very outset. To establish stability in staff, long-term appointments should be given priority. Moreover, the ICP should gain from drawing on external competence and capacity. It is acknowledged that it is not essential that the Global Office run the Ring comparison. Instead, an operational agreement could be made with an NSI if it was sufficiently well resourced. The Global Office capacity and competence on price statistics, survey related matters as well national accounts issues could gain from establishing partnering arrangements with some NSIs. Regardless, there has to be close collaboration with the regions as much of the price data used in the Ring will come from the regions.

> For strengthening the Global Office competence and capacity on price statistics, national account issues as well as running the Ring survey programmes, it is recommended that a partnering arrangement be established with one or two NSIs from the outset of a next round.

67. The DECDG of the World Bank has indicated it would be prepared to host the next round if this has the support of the global statistical community and there are very clear directions on the changes to the ICP Programme. These are important for facilitating discussions with the World Bank Executive on the arrangements for the next round.

> A decision on the host organization for a next round should be determined as soon as possible.

**The role of the Global Manager**

68. The following paragraph comes from chapter 2 in the ICP Handbook illustrating the twin roles of being Global Manager:

> "*The Global Office reports, through the ICP Global Manager, to the Director of DECDG in the World Bank. On matters related to the execution and implementation of the ICP mission, its policy, programmes, priorities and standards, the Global Manager acts within the directives provided by the Executive Board and within the framework of the work programmes and budgets approved by the ICP Board.*"

69. One of the challenges of the Global Manager was to find and maintain a balance between the World Bank and the Executive Board when dealing with various issues involved in the complex organization. Although good governance has been shown in finding viable solutions, the twin roles and respective responsibilities of the Global Manager should be addressed.

70. The Global Manager should have management authority over the ICP staff. This implies that the Global Manager should have the responsibility to recruit staff and provide performance evaluations etc. It can be argued that the arrangement adopted relieves the Global Manager from the management responsibilities in order to concentrate on coordinating the ICP. However, a likely negative outcome could be that the arrangement causes difficulties over time in diminishing the Global Manager's authority. It is recommended that this pending management issues is solved before a new Global Manager is appointed.

> The responsibilities and authority of the Global Manager should be strengthened, in line with the mandate of the Global Office.

**Appointing a new global manager**

71. A new global manager should be appointed succeeding Fredrick A.Vogel, who will retire. It is recommended that the selection of a new manager should follow the principles of international competition as adopted in 2002. The current manager was appointed through a competitive process managed by a subcommittee of the FOC and the DECDG of the World Bank.

72. An important role of the Global Manager is to establish credibility and a sense of partnership with all partners being involved in the ICP programme. The FOC recommends that a new subcommittee is appointed to avoid confusion of roles and to clarify the independence of the selection process. It is suggested that the members of the subcommittee should comprise the Chair and two representatives of the Executive Board. Furthermore it is suggested that the subcommittee is extended with a representative of the host organization to form a selection panel. The final decision should be made by the subcommittee.

> The Global Manager should be appointed by a subcommittee from the Executive Board members.

### 3. The role of the OECD/Eurostat programme with the Global Office

73. Close collaboration between the global ICP programme and the programme in Europe and OECD is essential to the success as the global programme can take advantage of the long-term experience of OECD and Eurostat countries. The two programmes collaborate in several areas. The results from the two programmes are merged with that of the ICP to produce a single agreed global database.

74. Eurostat and OECD are members of the TAG which is responsible for research and advice on methodological issues in the ICP programme. Several of the Eurostat/OECD methods have worked as a model for developing the corresponding ICP methods. Similarly, the SPD (Standardized Product Descriptions) developed for the ICP programme has been adopted by the OECD/Eurostat programme. For the new GDP components, efforts have been made to establish a common basis for comparison. As part of the Ring Comparison some Eurostat/OECD group countries have participated in the ICP surveys covering all GDP components. As concerns cooperation on governance issues senior managers from Eurostat and OECD take part as permanent members of the ICP Executive Board.

75. While Eurostat and OECD conduct their PPP programmes independently of the ICP, they participated fully in the Ring programme. Eurostat provided the funding support needed by the Ring countries in their region for the extra data collection. The UK ONS (Office for National Statistics) coordinated the Ring programme for Eurostat/OECD region.

76. The role of Eurostat/OECD and the Global Office was not well defined from the start of the current round. However, a working relationship for the ICP 2005 round is articulated and documented in a letter of agreement signed in February 2007. The agreement clarifies the roles and responsibilities of the respective organizations.

77. Although steps have been taken with the current agreement there still appears to be a need for strengthening the relationship on a mutual basis. A revised letter of agreement should be established from the outset of the next ICP round.

78. A more direct working relationship should be established between the two programmes allowing for the ICP to benefit from the greater experience in Eurostat and OECD. This could include the mutual representation in regional meetings and workshops. One could also consider if Eurostat and/or the OECD should locate a person in the ICP staff. This person would fully participate in ICP activities, but also provide a more constant liaison. The current letter of agreement should be expanded for the next round to include more about respective funding responsibilities for the global programme.

79. A pending issue among the two programmes is how the CIS region participation should be coordinated. The problems met in the 2005 round both in the regular survey as well in the Ring comparison should be avoided. From the outset an agreement should be made deciding on how to the CIS regions should participate for future rounds.

> There is need for strengthening the working relationship between OECD/Eurostat and ICP on a mutual basis.

### 4. Partnering arrangements

80. At an early stage in the ICP 2005 round it was acknowledged that the regional organizations needed assistance on handling the complex statistical matters involved. For providing assistance partnering arrangements were established between each regional agency and one/two NSIs. Due to several reasons such arrangements were not established in all regions. Arrangements established for the 2005 round:

(a) Australian Bureau of Statistics (ABS) and the Asian Development Bank (ADB);

(b) Statistics Canada (StatCan) and the United Nations Economic Commission for Latin America (ECLAC);

(c) ONS UK, and Institut National de la Statistique et des Études Économiques (INSEE), France and the African Development Bank;

(d) The ONS UK and Eurostat/OECD/World Bank;

(e) Rosstat Russia and the CIS Statistical Office.

81. Overall, the arrangements established seem to have worked well. The experiences made by regional agencies according to our information are mainly positive. It is argued that partnering arrangements should be continued for future rounds and further developed based on present experiences. Most arrangements have worked with two main targets:

(a) Providing technical and management assistance and support to the regional agency;

(b) Building capacity and competence — on regional and national levels.

82. The technical and management assistance to the regional agencies covers a wide range of tasks that to some extent have been approached differently across regions. An important initial task in most regions was the development of the regional product lists. For some of the arrangements direct assistance and support to the NSIs was included — especially in African countries. All in all these were positive experiences. Some of the countries urge for further assistance with some of the challenging initiatives started.

83. The funding of the partnering arrangements differs somewhat though most are based partly on funding institutions supporting the institutional capacity building involved. This was the case for ONS, INSEE, ABS and StatCan though the size of funding might have differed. To some extent the NSIs have contributed with own funding. Ir. some cases the ICP Global Office has been a part in such agreements and contributed to the funding. For most regions there have been regular meetings handling strategy as well as reports on operational progress.

84. Regarding capacity-building there seems to be larger differences across the regions. The African initiatives appear to be the most comprehensive and reflect the special needs for this region. There are well developed plans for future initiatives worked out developed in collaboration with and funded by international organizations.

85. In most regions there has been emphasis on training of price statisticians and national accountants using seminars and workshops. From the participating

countries point of view these have proven useful covering the various stages of the survey programme working with the preparation of product lists, and later on data collection, validation and verification. Some of the countries emphasize the importance of network building among statisticians. In a few cases some more in-depth capacity and competence initiatives seem to have been taken directly towards integration of ICP in the national CPIs or cross national harmonizing of the CPI basket.

> Partnering arrangements should be put in place from the outset of a next round. The arrangements should more explicitly build long-term national capacity and competence.

## B. Communication

86. The ICP website is the centre for information about the ICP. This is a well-organized site providing broad information on the ICP, the entities involved, the activities, the survey programmes and important uses of the PPPs. For each region there is a separate page providing information on the region as well as status reports on progress and other relevant information. The site contains important documents on the ICP surveys and methods, the Handbook, the Operational Manuals as well as research and development. Information about new methods and tools are briefly presented.

87. Transparent information on the various issues has been a central element in the processes leading up to the dissemination of final global results. The information strategy has emphasised providing insight to stakeholders and public in general. For the Executive Board, the TAG and the meetings with the regional coordinators, the minutes from each meeting being held have been made available from the ICP website.

88. One observation is that there have been many meetings for some of the entities. For the current round one should keep in mind that the 2005 round has implied major changes in the methodological aspects as well as in the governance. Based on the new governance platform established and the experiences gained throughout the present round one should expect that this will gradually converge to planned meeting frequencies when a new round start. At the same time, for future rounds the role of the regional coordinators is likely to be even more important in their execution of effective governance not only within a region but also to a larger extent across regions.

89. The ICP Newsletter or ICP Bulletin offers a number of relevant articles to the users on the various ICP issues covering governance, in depth presentations of new elements in the survey programme, some country reports on the experiences made using the new tools introduced. The newsletter is available in five languages.

> The next round of the programme should be adequately funded to support workshops and other activities essential to exchange information and maintain open communications.

## C. Capacity-building

90. The ICP 2005 has represented a learning challenge for all entities involved though especially for the global, regional, and national coordinators. A wide range of quality improvements have been introduced for the household consumption part implying a vast number of challenges to the participating countries. For a large number of countries work has been extended to cover all GDP components representing new areas for the national statistical programmes, capabilities and competence. Along with new methods the principles, routines and procedures have been adapted, and in line with this, the operational manuals and the ICP handbook have been rewritten. A set of new tools were as well introduced to improve quality through standardization but also to assist the national statisticians in their work.

91. For the 2005 round capacity-building has been an integrated part of the continuous process for improving data quality. The participating countries have been introduced to the new elements in several ways. Regional coordinators have as far as possible provided assistance and support to solve the various problems encountered. In addition the regional seminars and workshops on prices as well as national accounts (NA) have been important forums bringing the statisticians together for presentation and discussions on new methods and operational practice.

92. From a country perspective, there have been a great number of subjects to address, comprising how to work with new concepts, sampling issues, national coverage and scope, introducing new standards and classifications, preparing regional product lists (SPD), and handling the compilation, estimation, validation and technical issues on transfer of data to the regional coordinator. And later on, the regional validation seminars brought the national practitioners together.

93. Important contributions to capacity building have resulted from the direct and indirect learning on regional and national level. Regarding future rounds, further steps exploiting the synergies between the ICP and the national statistical programmes should be taken. Some frequently discussed initiatives are:

(a) Integrating the ICP consumption product lists into the national CPIs;

(b) Harmonizing CPIs on subregional level based on ICP product specifications;

(c) Integrating the periodic national household budget surveys (HBS) for utilization in the NA.

94. Exploiting these approaches on a sustainable basis requires that the international standards and classifications (among which Classification of individual consumption by purpose (COICOP)) developed for the purpose of the ICP should be implemented. This comprises as well the SPD tool being used in preparing the CPI product specification list in general.

95. According to the FOC regular survey more than 80 per cent of the participating countries are of the opinion that there is potential for integrating ICP and CPI. So far, experiences from attempts of integration are mixed. One of the problems faced is that the CPI product specification does not meet the ICP requirement for details reflecting the challenges when making spatial comparisons of prices versus comparisons in time.

96. As a basis for the Latin American region ICP consumption surveys, a common product list from the regional harmonized CPI was adopted. A similar solution was as well used by the CIS region countries. The FOC regular survey comments from Africa and Asia indicate that there are subregional initiatives on harmonizing work with respect to regional consumption product lists as a starting point.

> Capacity-building on regional and national levels must have high priority with large emphasis on integrating the ICP efforts on prices and NA with the national statistical programmes.

## D. Continuation of the ICP

97. A fundamental question addressed by the FOC is whether the ICP should continue. Given an affirmative answer, a follow up issue concerns frequency and what the next benchmark year should be. This will again require a decision on the coverage and scope of a next round. For several reasons, a decision on continuation should be taken in early 2008, recognising that there are a number of details that still need to be sorted out.

98. The 2005 round of ICP has obviously been a major step forward in developing a system of calculating PPPs on a global basis. Much more resources than before have been put into improving the methods and routines for collecting data, preparing operational manuals and a handbook. In addition, tools for preparing the lists of products have been developed and used in preparing the data-collection surveys, estimation and validation, for transfer and for regional validation. The basis for producing PPPs is clearly much better than in previous rounds. For expanding the coverage to the full GDP level, a number of new methods have been developed as well. The communication aspects between entities in the governance structure have improved and, as a result, a more transparent process has been achieved. There are some aspects of regional communication that require further attention.

99. As concerns the promotion of the ICP in the user environments some challenging steps remain to be taken. An important step was the decision to establish a Forum comprising all interested stakeholders. This provides an open channel for discussion on the various aspects of the ICP. A first meeting in the Forum is scheduled to mid-2008. Moreover, users' point of view typically emphasise the importance of availability of data and time series aspects. More frequent ICP surveys are welcomed.

100. As seen from the participating countries point of view, the combined elements of the ICP 2005 round constitute a sound basis for continuation and for building credibility. A large majority of countries have a positive attitude as concerns participation in future rounds. Still, one should not ignore that there could be conflicting opinions regarding willingness to enter into a new round. For many countries the many new elements of the current round have been challenging. Adapting to the survey programme and quality issues involved requires more experiences and time with the new structure and organization established.

> The ICP should be continued, drawing on the main elements of the current governance structure and the experiences obtained during the current round.

101. A rapid decision on continuation is probably necessary to avoid dismantling the world-wide organization structure that is established in the current round — in the NSIs, the regional agencies, and the Global Office. This is especially a challenge for the smaller countries and statistical institutions that normally are vulnerable in terms of turnover in staff. This could as well become a problem within the regional organizations.

102. Budget affordability is an important issue. This applies globally, regionally and nationally. A number of countries, both large and small, have experienced a significant increase in the workload. This cannot be continued for a next round without initiatives for easing the overall burden. A balanced reduction in the number of ICP consumption products could help to achieve this. This should, however, be combined with initiatives aimed at aligning the ICP more closely with the prices and NA work of NSIs.

103. The funding of ICP 2005 was provided by a limited number of donors, and the World Bank carried the greatest burden. Major contributions at the national level for the global programme came from the DFID in the UK, the AusAid in Australia and the CIDA in Canada. Contributors at the international level included the IMF and the UNDP. Funding support from the global trust fund was provided to most of the regions. However, most also conducted their own fund-raising efforts which contributed significantly to their regional programme. Periodic status reports were provided to the donor organizations to keep them informed on progress.

> A long-term funding commitment by all stakeholders is of utmost importance for the continuation of the ICP.

104. What should be the next benchmark? The common attitudes among stakeholders definitely seem to favour a next benchmark within the next 2-3 years. 2010 has been suggested in the FOC group emphasizing the need to keep the momentum — and to send a signal to the users. Some of the participating countries have argued for 2011 as a next benchmark, based on a recommendation to align the ICP and the OECD benchmark.

105. In a long-term perspective an overall aim could be to align ICP with the OECD/Eurostat system using a 3-year rolling approach for the survey programmes. For a next round this is all too ambitious, although some steps have already been taken in the current round regarding survey components and governance system. Further efforts supporting integration of systems are required on regional and national level in continuing capacity-building and developing the national statistical systems.

> The next benchmark should be 2011, allowing time to remedy any problems encountered in the phase 2 evaluations and aligning with the next OECD/Eurostat benchmark. The ICP should thereafter work with a 3-5 year frequency.

106. The decisions to be made on coverage and scope are obviously related to the funding issue, and more generally to resources and capacities available at different levels. In the user environment there is a strong support for keeping a full GDP coverage. There is a support for this among the participating countries as well, being well aware of the importance of the centrally managed survey programme developed to cover components like housing and construction.

> The ambition of developing full GDP coverage of PPPs should be continued.

107. Some user environments argue for increasing the number on participating countries. Even the smaller participating countries seem to be motivated and emphasise interest in future participation in the global ICP programme. A number of the countries that did not participate in the 2005 round are of special interest when working with poverty issues and MDGs. For many of these countries the statistical capacity and competence is weak and could require support beyond what the funding situation allows. The overall evaluation and decisions to be taken on this issue should rest with the Executive Board and stakeholders involved.

## E. National accounting issues

108. As mentioned, the 2005 ICP round has been extended to full GDP coverage. National accounts aggregates are being used in the ICP serving in the role as weights in the aggregation process and frame for the ICP results, in particular GDP and individual consumption. There are a number of issues in the countries' national accounts that may heavily affect the final result, and which should therefore be reviewed as part of an overall evaluation of the ICP.

(a) The approach taken for the ICP comparisons is the one from the expenditure side, enabling comparisons of levels and structures of the principal components of final demand. A disadvantage with this approach is that industries are not identified for productivity comparisons. The approach taken means that PPPs are calculated in three stages: at the product level, at the group product level and at the aggregated levels. The weights used for the latter are the expenditures for the product groups, and these are preferably to be found in the categories of expenditures in national accounts.

(b) On the full expenditures breakdown, the United Nations 2006 Yearbook of *National Accounts Statistics* reveals that virtually all (125) of 127 countries providing both NA and ICP data do have such a breakdown on expenditures. Another 19 countries (mostly African) following the ICP do not have NA data

published at all in the Yearbook. On the individual consumption expenditure breakdown, 63 ICP countries, or just one half of the countries with the aggregated final expenditures, publish such a detailed breakdown. Thus, as many as 83 ICP countries, therefore, lack this key table. This group includes countries like Argentina, Bangladesh, China, Egypt, India, Indonesia, Nigeria, Pakistan and the Sudan.

(c) PPPs are used to convert national final expenditures on product groups, aggregates and GDP of different countries into real final expenditures. PPPs and real final expenditures provide the price and volume measures required for international comparisons. Three sets of indices are typically derived (all utilizing the NA framework): indices of real final expenditures, indices of real expenditure per head, and comparative price levels. Certainly, there are limitations to be made to these price and volume indices, depending also on the reliability of the expenditure weights and the price data.

(d) The final expenditures should be broken down by product groups — called "basic headings" — according to a common classification for prices and expenditures. The basic headings levels are the building blocks of the comparisons. In practice, coverage is determined by the lowest level of final expenditure for which explicit expenditure weights can be estimated. Such level of details is rarely found in the national accounts. The FOC Regular Study confirms that this is a problem. More commonly, the most detailed data may be extracted from the household budget surveys.

(e) Valuation is important for providing comparable volume measures: expenditures valued at purchaser's prices require that — for consistency reasons — the prices should be purchasers' prices, i.e. market or transaction prices, and representative of their final expenditure on GDP.

(f) The prices reported in the ICP need to be consistent with the prices underlying the national accounts, otherwise the denominator (i.e. the PPP) will not be consistent with the numerator (i.e. the national accounts) resulting in fallacious comparisons. This is particularly the case where market prices are not always easily established, such as in health and education.

109. While it is important to have complete and comparable breakdowns of expenditure at the basic heading level, it is even more important to have complete and comparable levels of GDP. In other words, the same definition of GDP should be applied by all countries (1993 SNA not 1968 SNA for example). Furthermore, the GDP estimates should be exhaustive including estimates of the non-observed economy, own-account production, owner-occupied housing, small unincorporated enterprises and making imputations for survey non-response.

110. The results obtained from the part of the FOC Regular Survey on breakdown of expenditure to basic headings, address issues on communication as well a heavy workload in a great number of countries. Establishing a data basis for meeting the basic heading weights specifications has been quite a challenge for the ICP countries. When producing the basic headings weights for the 2005 round, information from the national household budget surveys (HBS) were used where available, and these surveys will have high priority as source in future rounds. International efforts on preparing and conducting HBS need to be coordinated and as far as possible synchronized. It should as well be mentioned that the HBS data in

general are not adequate in representing expenditures by wealthier parts of the population. The list of problem areas emphasized by the ICP countries should be addressed in Phase 2 of the review in greater detail. Important areas are construction and government services, and assigning weights for missing information.

111. The survey reveals that some countries have not been involved in the work on weights (Latin American countries). This is unfortunate when having focus on capacity-building and implies that the countries do not have the opportunity to gain from useful experiences.

112. In conclusion, it should be noted that features of national accounts being involved in the ICP work underline the fact that they are of utmost importance to the results. Characteristically and critical, it is seen that a great deal of imputation is implied in the weights issue.

> A lesson learned is that work on national accounts needs to be improved in contents, both in terms of more details and improved quality. In future rounds, ICP should be more closely aligned with statistical programmes in the NSIs, household budget surveys and national accounts.

## V. Concluding remarks

113. The 2005 round of ICP has been a major step forward in developing a system of calculating PPPs on a global basis. More resources than before have been put into improving the programme. The new governance structure and the management initiatives taken have turned the ICP into an efficient global system, which also seems capable of handling the challenges in future rounds.

114. For expanding the coverage to the full GDP level, a number of new methods have been developed. Tools for preparing lists of products have been developed and used in preparing data collection surveys, estimation and validation at different levels. The communication aspects between entities in the governance structure have developed. The basis for producing PPPs on a global basis is clearly significantly improved through the present round.

115. Still, being a large and complex system, there are obviously further improvements to be made in different areas of the ICP. In the present report, the FOC has focused mainly on various elements of the governance structure. A main conclusion is that the governance structure now in place has functioned quite well, and, as a result, a more transparent process has been achieved. The structure has proven capable to handle main challenges and problems previously discussed in reports to the UNSC. Among the recommendations, the FOC has stated that both the role of the Global Manager and the responsibilities of being a host institution need clarification. Several aspects of the Ring comparison communication fell short during this round and require further attention before launching a new round. Furthermore, the communication between regional and national coordinators needs to be improved.

116. To keep up momentum, a decision on continuation of ICP should be taken early in 2008. A preferable new benchmark year could be 2011. This would bring

the ICP at pace with the OECD/Eurostat system, enabling further integration of the two programmes. In a long-term perspective, an overall aim should be to align ICP with the OECD/Eurostat system using a 3-year rolling approach for the survey programmes. The ambition of developing ICP to full GDP coverage should be continued.

117. To fulfil these ambitions, however, would require a clear strategy of standardization and integration between different statistical programmes. With the rapidly increasing workload of statistical offices, it is decisive for the future of ICP that future rounds have focus on a closer alignment with other statistical programmes in NSIs, such as price statistics and NA.

118. In new ICP rounds, as before, capacity-building and active cooperation between different levels and institutions will be of utmost importance. Communication between different parties involved should be improved.

## VI. Points for discussion

119. **The Friends of the Chair state that, overall, the governance structure of the 2005 ICP round has worked well. However, the report contains several recommendations, of which the Commission may wish to express its views on the following:**

(a) **To keep up momentum, a decision on continuation of ICP should be taken early in 2008. A preferable new benchmark year could be 2011. This would bring the ICP at pace with the OECD/Eurostat system, enabling further integration of the two programmes.**

(b) **The responsibilities and authority of the Global Manager should be strengthened. Terms of reference should be prepared, clarifying the roles and responsibilities of being host organization. The Global Manager should be appointed by a subcommittee from the Executive Board members.**

(c) **For strengthening the Global Office competence and capacity on price statistics, national account issues as well as running the Ring survey programmes, it is recommended that partnering arrangements be established with one or two NSIs from the outset of a next round.**

(d) **Communication aspects require further attention before launching a new round. Important aspects of the Ring comparison communication fell short during this round. Furthermore, the communication between regional and national coordinators needs to be improved.**

(e) **The ambition of developing ICP to full GDP coverage should be continued. To fulfil these ambitions, however, would require a clear strategy of standardization and integration between different statistical programmes. With the rapidly increasing workload of statistical offices, it is decisive for the future of ICP with a closer alignment with other statistical programmes in NSIs, such as price statistics and national accounts.**

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**Items for discussion and decision: national accounts**

# Intersecretariat Working Group on National Accounts

## Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-eighth session,** the Secretary-General has the honour to transmit to the Statistical Commission the report of the Intersecretariat Working Group on National Accounts. The Commission is requested to adopt the final draft of volume 1 of the updated System of National Accounts. This request, and other points for discussion by the Commission, are set out in paragraph 43 of the present report.

* E/CN.3/2008/1.
** See *Official Records of the Economic and Social Council, 2007, Supplement No. 4* (E/2007/24), chap. I.B.

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# Report of the Intersecretariat Working Group on National Accounts

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# I. Introduction

1. At its thirty-eighth session, the Statistical Commission:

(a) Commended the Intersecretariat Working Group on National Accounts for completing in a transparent manner the recommendations on the 44 issues identified for the update of the *System of National Accounts, 1993* (1993 SNA)[1] and for involving the global statistical community in accordance with the agreed timetable;

(b) Adopted the package of recommendations on the update of the 1993 SNA presented by the Intersecretariat Working Group to the Commission, as set out in the background document entitled "The full set of consolidated recommendations", with additional considerations on five issues as set out in sections III.C and III.D of the report of the Intersecretariat Working Group on National Accounts (E/CN.3/2007/7) and in the background document containing its supplement;

(c) Emphasized the need to establish guidelines on when to recognize pension entitlements in the core set of accounts, to undertake additional research on the estimation of research and development as capital formation, to provide guidelines taking into consideration the impact of the treatment of goods for processing on input-output analysis and the recording of international trade and to elaborate on the guidelines on the integrated measurement of the informal sector within the national accounts;

(d) Reiterated its request to the Intersecretariat Working Group to submit to the Commission in 2008 a strategy for the implementation of the updated *System of National Accounts* (SNA), based on regional consultations in 2007, reflecting user perspectives and taking into account the different levels of implementation across countries;

(e) Took note that the current update had retained the framework of the 1993 SNA and therefore encouraged countries to continue to implement it;

(f) Requested the Intersecretariat Working Group to act on the concerns raised by the Commission with regard to supporting countries in establishing a basic data collection strategy for the implementation of the SNA, the integration of the informal sector in the national accounts and the need for capacity-building to implement the strategy and recommendations;

(g) Underlined the importance of preparing handbooks and manuals with implementation guidance and to enhance capacity-building through training and technical assistance;

(h) Took note of the proposal by the Intersecretariat Working Group to present to the Commission the draft of the update of the 1993 SNA in two volumes: volume 1, in 2008, comprising a full set of chapters representing the framework in terms of accounting conventions, the accounts and the integration of the accounts, and incorporating the adopted recommendations on the 44 issues; and volume 2, in 2009, comprising interpretations of the accounts and extensions, such as satellite accounts;

[1] United Nations publication, Sales No. E.94.XVII.4.

(i) Requested the Intersecretariat Working Group to continue to report to the Commission on the progress in the implementation of the SNA by countries, focusing on scope, coverage and quality;

(j) Supported the formation of a high-level group to examine the long-term implications of the SNA and possible future changes, taking into consideration rapid changes in the global economy; the need to balance users' needs; theory and the ability to collect primary data; the choice between imputed versus observable transactions; and the role of satellite accounts vis-à-vis core accounts; and requested the Intersecretariat Working Group to establish the high-level group and to ensure broad country representation in it.

2. Section II below provides an overview of the preparation of SNA and requests the Statistical Commission to approve the draft of volume 1 of the updated SNA. Section III presents a strategy for the implementation of the updated SNA. Section IV describes actions taken in response to the Commission's recommendation regarding the creation of a high-level group on development of the SNA. The full text of the chapters submitted for adoption is available at http://unstats.un.org/unsd/sna1993/draftingPhase/ChapterList.asp. Points for discussion are contained in paragraph 43 of the present report.

# II. Preparation of the updated System of National Accounts

## A. Background

3. In 2003, the United Nations Statistical Commission called for an update of the 1993 SNA. The update was to bring the accounts into line with the new economic environment, advances in methodological research and the needs of users. The Commission mandated that the update would not recommend fundamental or comprehensive changes to the 1993 SNA that would impede its implementation, that recommendations for change should consider feasibility of implementation and that consistency with related manuals should be an important consideration.

4. The Intersecretariat Working Group on National Accounts — comprising the Statistical Office of the European Communities (Eurostat), the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), the United Nations and the World Bank — was asked to organize and coordinate the update project and was assisted in its work by a project manager and an editor.

5. The Statistical Commission endorsed the establishment of the Advisory Expert Group on National Accounts, with experts from all regions of the world, to play a key role. The Commission emphasized the need for the broadest possible involvement of the global statistical community in the update project. The project website, http://unstats.un.org/unsd/nationalaccount/snarev1.asp, maintained by the United Nations Statistics Division, promotes the mandated transparency and wide involvement, especially of national accounts experts. The website provides comprehensive and timely information related to the update, including the work programme, the agreed list of update issues, related papers, the recommendations of the Advisory Expert Group and comments by countries and organizations on them and, most recently, draft chapters and comments on them.

6. The update process has followed a strategy of six main elements. First, a list of 44 issues, endorsed by the Statistical Commission, framed the tasks in the issue-oriented phase of the project. Second, topical ad hoc and standing expert groups took the lead in researching issues and preparing well-documented proposals. Third, the Advisory Expert Group considered those proposals at four meetings and in e-discussions over a two-year period and made recommendations. Fourth, countries provided their views of the recommendations, initially as they emerged from each Advisory Expert Group meeting, and then, in early 2006, on the set of provisional recommendations, which were assembled in a single document to facilitate a review of consistency of the recommendations and robustness of the system. Fifth, the Intersecretariat Working Group reviewed in depth the country comments and brought to the Commission a package of recommendations on the update of the 1993 SNA, which, as noted in the Introduction, the Statistical Commission adopted. Sixth, in a drafting and review phase that began in the second half of 2006, the existing text of the 1993 SNA was updated to incorporate the recommendations and clarifications. Volume 1 of the planned two volumes of the updated SNA is ready, in accordance with the proposal made by Intersecretariat Working Group to the Statistical Commission at its thirty-eighth session.

## B. Drafting and review of volume 1

7. At the time the Statistical Commission held its thirty-eighth session, 10 chapters of volume 1 had been drafted on the basis of the provisional recommendations. Those draft chapters were posted on the project website and invitations to comment on them were sent to countries (national statistical offices and interested central banks). Since then, other chapters have been posted for review and comment.

8. Several features of the transparent and consultative process of reviewing and commenting on draft chapters may be noted. On average, 17 sets of comments were received on each chapter, with 31 different statistical offices, central banks, and individual experts commenting in addition to the Intersecretariat Working Group organizations. All comments, which ranged from helpful editorial comments to thoughtful substantive comments, are available on the project website. The individual comments on a chapter were analysed by the Intersecretariat Working Group organizations and grouped into several categories, on one end those for the editor's discretion and on the other those requiring further consultation with the Advisory Expert Group. A number of comments were on the text of the 1993 SNA unrelated to the recommendations, asking for additions or deletions that were beyond the scope of the update. Another frequent request was for examples worked out with hypothetical values; often these could not be undertaken within the allowed time frame (see para. 14).

9. During a meeting in March 2007, the Advisory Expert Group discussed comments on the chapters that make up the sequence of accounts, and the views of the Advisory Expert Group were sought on several points that came up later. On a few controversial points, revised passages were posted for comment, as addenda to the chapter, on the project website. On a number of points raised in the comments, including those on consistency with other manuals and on fleshing out agreed recommendations, the Intersecretariat Working Group provided advice to the editor (a record is found in the minutes of the meetings of the Intersecretariat Working Group, which are posted on the website). The editor revised the chapters, including

for the few instances where text needed to be brought into line with the package of recommendations adopted by the Statistical Commission. The revised chapters are posted on the project website along with a comparison file that flags changes from the earlier draft version of the chapter.

10. The titles of the chapters in volume 1 are listed in the annex to the present report. They are informally grouped to give more sense of the structure of the volume. Chapters III-XVII were edited and reviewed as described above. Because they do not present recommendations and thus did not require substantive changes, chapters I and II, the Introduction and Overview, respectively, were updated on the basis of the advice of the Advisory Expert Group. Annex I of volume 1 presents the coding and accounting structure of transactions and other flows and assets, and annex II presents the accounts. A preface provides a broad view of the volume and acknowledges the many and substantial contributions over the life of the update thus far.

11. For continuity, the numbering of chapters in volume 1 was kept the same as in the 1993 SNA through those on the sequence of accounts — that is, through to chapter XIII. The recommendations and clarifications required new text in all chapters, but not the Introduction or Overview. However, the fact that the recommendations fell into four main groups — related to assets, financial services, stocks and flows characteristic of economic globalization and government, and the public sector — led to concentrations of new text in chapters affected by those recommendations. For example, many of the recommendations on assets resulted in the inclusion of new text in the following chapters: the production account; the capital account; other changes in assets account; and the balance sheet. Many of the recommendations on financial services resulted in inclusion of new text in the following chapters: the production account; the financial account; other changes in assets account; and the balance sheet.

12. Two chapters are entirely new. Chapter XVI, on summarizing and presenting the accounts, shows how standard aggregates, such as gross domestic product and income measures, are related to the sequence of accounts. It also shows how flows to and from the rest of the world convert gross domestic product to gross national income. It sheds light on how the SNA provides a framework within which other systems — notably those described in manuals on balance of payments, monetary and financial statistics and government finance statistics — can be elaborated in a consistent manner. Chapter XVII, on cross-cutting and other special issues, pulls together explanations of new treatments on several complex topics, providing a more comprehensive view than would be likely to emerge from the discussions at appropriate points in earlier chapters. These topics are: insurance; social insurance; loan guarantees; pensions; entries associated with financial assets and liabilities; contracts, leases and licences; and employee stock options.

13. Following the precedent of the 1993 SNA, the collaborative effort of the member organizations of the Intersecretariat Working Group in producing the volume will be recognized by the presence of the five official logos on the cover. In other ways, however, the volume breaks precedent and features several innovations. National accounting concepts and terms are not only defined in a glossary but are also identified within the text so that the definitions may be seen in context. The tables, which present a fully developed numerical example running through the

sequence of accounts, have been put in the form most often used for publication. More references to other manuals and related materials are provided than in the past.

14. From the outset it was planned to make the volume available online in electronic format on the website of the Statistics Division as well as in the traditional hard copy. The electronic version will have several features that enhance its usefulness to a wide range of users. It will include a set of downloadable tables that can be used by statistical offices as a starting point for their own work or by students to experiment with alternative numerical values to watch the consequences unfold for the whole set of accounts. Over time, numerical examples, one of the most frequent suggestions in the comments, and other explanatory and reference material will be added. Updates on important ongoing research related to key topics, such as on research and development and on goods for processing, can be provided as a growing knowledge base for the implementation of national accounts.

15. The Intersecretariat Working Group is presenting volume 1 of the updated SNA for adoption by the Statistical Commission. As soon as possible after adoption, the Intersecretariat Working Group will make available a pre-edit (white cover) version on the project website so that producers and users of national accounts will have immediate access to the updated international statistical standard. A white-cover version in hard copy will follow. The Intersecretariat Working Group will pursue translation of volume 1 with a view to having arrangements in place when the requirements for editing have been met.

## C. Next steps

16. The drafting and review of volume 2 on the interpretations and extensions of the accounts and tables will proceed following the present session of the Commission. The list of chapters planned for volume 2 is set out in the annex to the present report. The plan is ambitious. Adaptations in the process should be expected because the structure and content of most chapters in volume 2 are more subjective than they were for chapters in volume 1. For example, it is planned that the Advisory Expert Group will provide comments on detailed outlines of the chapters before they are drafted in order to narrow the focus of comments after they are drafted.

17. The working assumption is that the Advisory Expert Group will meet in the second half of 2008 to discuss comments of countries on the draft chapters of volume 2. The Intersecretariat Working Group, in addition to its overall role as a coordinating body, will continue to support the editor by reviewing drafts and conducting research and by helping to reach conclusions on points that come up in the drafting process, in consultation with the Advisory Expert Group as appropriate. The Statistics Division will continue to provide secretariat services and to maintain the project website.

18. Meanwhile, as requested by the Statistical Commission at its thirty-eighth session, the Intersecretariat Working Group is pursuing initiatives that will support the updated SNA and the implementation of national accounts in general. In particular, the following methodological activities respond to the concerns raised by the Commission:

(a) With regard to pensions, Eurostat, working with the European Central Bank, initiated a task force on government pension schemes in 2006. The Task Force is addressing a range of issues in recognizing pension entitlements;

(b) With regard to research and development, the OECD has set up a new task force with the objective of preparing a handbook on deriving capital measures of intellectual property products, covering research and development, software, mineral exploration and evaluation, and entertainment, literary or artistic originals. The handbook will provide guidance on deriving estimates of gross fixed capital formation, consumption of fixed capital, capital stock and the capital services provided by assets of intellectual property products. In doing so, the task force will address issues such as determining which expenditures for intellectual property products should be recorded as capital formation and estimating the service lives and prices of intellectual property products assets. As part of the revision of the *European System of Accounts 1995* (ESA95), Eurostat has created its own task force on research and development, the objective which is to prepare the way for the introduction of compulsory supplementary tables on research and development in the new European System of Accounts regulation. The two task forces will work in close cooperation, and it is expected that they will create the necessary basis to achieve the objective of including research and development in the core national accounts;

(c) With respect to merchanting and goods for processing, several organizations are considering taking or have undertaken initiatives to pursue different aspects. For instance, the Economic Commission for Europe/OECD/Eurostat Working Group on the Impact of Globalization on National Accounts has accepted the invitation of the Intersecretariat Working Group to contribute to the preparation of a set of operational guidelines for the treatment of merchanting and goods for processing in national accounts. The Working Group will coordinate its work closely with other forums;

(d) With respect to the integrated measurement of the informal sector within national accounts, work on the chapter on the informal sector, to be included in volume 2, has been pushed forward. A preliminary, limited circulation draft of the chapter was discussed by the Delhi Group on Informal Sector Statistics at a meeting in October 2007.

19. In addition, the Intersecretariat Working Group has continued to foster consistency across manuals and handbooks. For example, close coordination continues between work on the updated SNA and on the revised balance-of-payments manual. The editors of both volumes are striving for the greatest possible degree of consistency, even using the same words when appropriate. For environmental accounts, the ground has been laid for consistency with the revised *Handbook of National Accounting: Integrated Environmental and Economic Accounting*, which is expected to become an international standard. Efforts are getting under way to update a number of manuals and handbooks in national accounts and related fields to further their mutually supporting relationships. Full details about these efforts, which will be presented in a conference room paper containing the comprehensive implementation strategy, is set out in section III.D of the present report.

# III. Strategy for the implementation of the updated System of National Accounts

## A. Background and regional perspectives

20. At its thirty-eighth session, the Statistical Commission asked the Intersecretariat Working Group to submit a strategy for implementing the updated SNA. The proposed strategy is based on regional consultations undertaken during 2006 and 2007 that reflect user and producer perspectives, the latter of which are represented at both the most senior and technical levels. The strategy also takes into account the assessment of the different levels of implementation of the 1993 SNA in countries and was prepared with the recognition that many developed countries already have some plans for implementation. In October 2007, the OECD Working Party on National Accounts noted in a report that Australia planned to complete implementation by the end of 2009 and that almost all OECD member countries will have completed implementation by 2014. The strategy should have elements that are relevant to developing countries, many of which have not yet made firm plans.

21. The latest assessment of the level of implementation of the 1993 SNA by developing countries shows that it has risen sharply in recent years. Even for developing countries in regions other than Africa, 90 per cent of the countries report national accounts statistics to the Statistics Division. For Africa, the response rate is somewhat lower; 20 out of 53 countries do not report national accounts statistics to the Statistics Division. In terms of coverage of the national accounts statistics reported, the benchmark of milestone 2 is observed for 80 per cent and higher for developing countries in Western Asia and in Latin America and the Caribbean. With this milestone, a reporting country provides at least value added by economic activities and gross domestic product by expenditures, either in current and constant prices, and gross national income. For African countries that do report data, virtually all meet milestone 2. In terms of the conceptual compliance with the 1993 SNA, the rate of 53 per cent for developing countries seems low, but this average percentage masks the range of around 60 per cent for reporting countries in Africa and Asia, 50 per cent in Latin America and 11 per cent in Oceania.

22. In addition to the assessment of implementation by the Statistics Division, IMF has been using the Data Quality Assessment Framework to assess countries' statistical practices in national accounts and disseminating the results as data modules of the Reports on Observance of Standards and Codes. As of the last quarter of 2007, data module Reports on Observance of Standards and Codes had been published for 78 countries (see http://dsbb.imf.org/Applications/web/dqrs/dqrsroscs/). The 1993 SNA is the imbedded standard of the national accounts Data Quality Assessment Framework, and thus the data module Reports on Observance of Standards and Codes give an indication of the quality of 1993 SNA implementation. The practices in many of the assessed countries are not in full observance of best practice regarding source data, statistical techniques and resources to support the national accounts work.

23. The Intersecretariat Working Group presented a study on the factors impeding the implementation of national accounts to the Commission at its thirty-sixth session. The main factors identified were related to the lack of qualified staff resources and the lack of reliable source data. Regional seminars in 2006 and 2007

confirmed those two impeding factors. Moreover, they identified three additional impediments to the implementation of the SNA that needed to be addressed when developing the implementation strategy. The five impeding factors can be summarized as follows:

(a) Staff resources: number of employees and training are insufficient, staff turnover is too high, and recruitment efforts are insufficient;

(b) Coordination among technical assistance and training providers could be better;

(c) Training could be more pragmatic;

(d) Source data need strengthening;

(e) The promotion of good quality national statistics needs strengthening.

## B. Modalities

24. Prior to the completion of the updated System of National Accounts, implementation was focused mainly on establishing the SNA integration framework in countries (see para. 26 below), compiling the system's aggregates and tables using existing data sources, and institutional arrangements. The implementation strategy that the Intersecretariat Working Group submitted to the Statistical Commission in 1994 encompassed four modalities for internationally diffusing national accounts standards and expertise. Those modalities, with the activities undertaken by the member organizations of the Intersecretariat Working Group, are as follows:

(a) The organization of meetings, training seminars and workshops supported a variety of courses and workshops in national accounts since the issue of the 1993 SNA;

(b) The provision of technical cooperation advanced the use of the 1993 SNA integration framework in countries' systems of economic statistics through conducting advisory missions and working directly with the staffs of national offices;

(c) A series of manuals and handbooks was published, comprising a series of methodological guides that mainly elucidated the integration framework of the national accounts and included price statistics guides that addressed data source issues as well as the SNA integration framework;

(d) Sponsorship of research: undertook research in support of the implementation of SNA concepts and its satellite accounts, and the related methodological guidelines.

25. Drawing from the outcome of regional outreach seminars, the study of impediments, the results reported to the Statistics Division and the IMF data-quality assessments of countries' national accounts, the Intersecretariat Working Group proposes to retain but refocus the four modalities of the SNA implementation identified in paragraph 24 above. In addition, the message from the regional seminars described in paragraph 23 (e) highlights the important role of statistical advocacy in sustaining national support for viable economic statistics and national

accounts programmes. Therefore, the Intersecretariat Working Group suggests adding statistical advocacy as a fifth implementation modality.

26. In considering how to refocus the modalities of SNA implementation that are still relevant, implementation of the national accounts can be characterized in terms of the building blocks of the statistical production process. The starting block comprises the institutional and legal framework, staff, technology and financial resources. The second block represents the registers and frames from which the units are selected for the collection of administrative and survey data; the third block consists of the various data-collection instruments, the sample designs and source data collected; and the fourth block constitutes the integration frameworks for organizing and consolidating the source data. The fifth, and last, block represents the dissemination of statistics. For national accounts, the SNA is itself an integration framework, and it may be tempting to view the implementation of the updated SNA as putting the integration framework (that is, the fourth block) into place in countries. However, success is measured at the last block, the dissemination of statistics, and success in dissemination depends fundamentally on working with all of the building blocks. A similar but more detailed description of this holistic view of the statistical production process is presented in the Report of the Friends of the Chair on integrated economic statistics under agenda item 3 (e) of the thirty-ninth session of the Statistical Commission.

## C. Building capacity: training and technical cooperation

27. Training and technical cooperation activities for the implementation of the updated SNA are of particular relevance to developing countries. These activities are being planned with due consideration of the fact that for developing countries, implementing the update of the 1993 SNA still is, in large measure, implementing the 1993 SNA. In order to meet the challenges of the next decade of national accounts development, training and technical cooperation activities need to take into account all the elements of the statistical production process. In taking a holistic view of that process, training and technical cooperation need to take into consideration not only the integration framework but also other elements, such as reflecting the creation and maintenance of statistical business registers and other frames, the design of surveys and use of administrative information systems to generate relevant source data, the dissemination of statistics and institution-building. The last element of the process is relevant to arranging inter-agency service agreements, creating advisory committees and strengthening the legislative and regulatory framework, and managing and retaining a professional statistical staff. Moreover, technical assistance will focus on changes embodied in the updated SNA that are likely to affect developing countries' implementation of national accounts standards in the years ahead.

28. Training programmes will be designed with the aim of providing guidance on how to deal with institutional limitations that can constrain national accounts implementation. The training will raise awareness of the critical role of securing resources to sustain the statistical programmes supporting the national accounts. Also, training and technical cooperation will share and promote best practices on building and sustaining skilled management infrastructure to coordinate existing staff, technology and capital resources.

29. The training programme will be implemented mainly through organization of meetings, training seminars, and workshops in national accounts as a concerted effort of the member organizations of the Intersecretariat Working Group. Actively pursuing those initiatives at the regional and subregional levels should enable countries that have had similar SNA implementation experiences to help one another. Moving towards the development of a coherent curriculum, the delivery of which is shared across training institutions, would be a significant step in promulgating best practices in the elements of the statistical process.

30. While technical cooperation helped establish the SNA as the overarching framework for economic statistics systems in a large number of developing countries, the implementation programme needs to take into account the complete statistical production process. This refocused programme should build on existing initiatives. One example of existing initiatives is the support provided by the World Bank to countries to elaborate national strategies for development of statistics within the framework of the Partnership in Statistics for Development in the Twenty-first Century, as well as under its Statistical Capacity-building Programme providing financing for building statistical capacity. Another example is the recent work by IMF to incorporate statistical development programmes into poverty reduction strategy papers and thus into medium-term public expenditure planning.

31. Overall, technical assistance for the implementation of the updated SNA needs to focus on improving coordination among providers of advice and financial resources. This focus should encompass sectoral coordination of technical cooperation for statistics across priorities of the development partners.

32. The supporting document containing the comprehensive implementation strategy provides further detail on training and technical cooperation.

33. From 6 to 8 May 2008, Eurostat and the United Nations Statistics Division will host a conference in Luxembourg to address the coordination of capacity-building work at the national and international levels as a first priority in carrying forward implementation of the updated SNA. Participants at the meeting will include a wide range of development agencies and representatives from some 70 developing countries. The aim of the meeting is to reach an agreed set of elements for a common planning, monitoring, and evaluation framework for technical cooperation among the providers and recipients. This will help mainstream strategic planning for national accounting in developing countries and build capacity within the five main building blocks of the statistical production process.

## D. Manuals and handbooks

34. The publication of a series of manuals and handbooks will support the implementation of the updated SNA across the full range of countries. Such methodological guides will provide practical compilation guidance and will address the more fundamental issues of data source and quality. Further updates of existing manuals will be needed, both those on national accounts and on other fields of economic statistics. Challenges lie ahead both in identifying areas to be revised in the manuals for harmonization with the updated SNA and in issuing expeditiously the updated and new manuals.

35. Responsibility for the preparation of the manuals will be shared among the member organizations of the Intersecretariat Working Group. The list of planned manuals is provided as part of the supporting document containing the detailed implementation strategy.

36. Moreover, there is a need for the methodological guides to be made available in all official languages of the United Nations on a timelier basis than in the past. Experience and feedback from countries has shown that the lack of availability of guides in languages other than English significantly slows implementation.

## E. Research

37. Applied research will be undertaken under the leadership of the member organizations of the Intersecretariat Working Group in support of the implementation of concepts from the updated SNA and its satellite accounts. Research needs to be pursued as a continuous activity to ensure robust and rapid implementation of existing and newly agreed statistical guidelines as a first priority, given the rapid pace of technological change and financial innovation.

38. Research also should continue on the development of new concepts to meet new measurement challenges, as laid out in the SNA long-term research agenda. The long-term research agenda was discussed and supported at the March 2007 meeting of the Advisory Expert Group. Commenting on the nature of work that will be needed to carry the research programme forward, the Advisory Expert Group recommended that the list of possible topics on research agenda be prioritized, with only a few (three to five) issues on the forefront at any given time. The open-ended list of issues on the long-term research agenda is posted for reference, comments and suggestions for additional topics at http://unstats.un.org/unsd/sna1993/research/rissueList.asp.

## F. Advocacy

39. Promoting good quality national accounts statistics is essential in establishing sound macroeconomic policy with a coherent medium-term budgetary framework. Moreover, this promotion will advance the integration of trade, income and financial flows between the domestic economy and the rest of the world and the link between the real and financial sectors. The member organizations of the Intersecretariat Working Group have been asked to develop a communication strategy demonstrating the System of National Accounts as the overarching statistical framework, advocating its usefulness for policy purposes and promoting its use to link the economy with the environment and society.

40. An integral component of the implementation strategy, advocacy aims to support an ongoing dialogue among statistical producers, the various levels of government, the business sector, the academic community, and the general public about user needs for official statistics and progress in meeting those needs. This recurrent communication can be established through targeted workshops, conferences, press releases and promotional materials that highlight the benefits of good-quality official statistics in general and national accounts in particular. These regular engagements between the producers of statistics, the providers of basic data

and the users of national accounts will reinforce a better-funded, cost-efficient and user-oriented national accounts programme.

## IV. Creation of a high-level group to consider the future direction of the development of the System of National Accounts

41. The Commission at its thirty-eighth session requested the Intersecretariat Working Group to establish a high-level group on national accounts to examine the long-term implications of rapid changes in the global economy, users' needs and other factors on future methodological development of the System of National Accounts.

42. During 2007, the Intersecretariat Working Group held consultations with several heads of statistical offices to discuss the main modalities of the high-level group, including its mandate, functions, composition and governance. These consultations led to the conclusion that a meeting will be convened by the Working Group in the summer of 2008, with the involvement of interested countries. The objective of the conference is to work out the aforementioned modalities of the high-level group on national accounts. A final proposal about the composition of the group and its work programme will be submitted to the fortieth session of the Commission in 2009.

## V. Points for discussion

43. **The Commission is requested to:**

(a) **Adopt the draft of volume 1 of the updated SNA as the international statistical standard for national accounts statistics and encourage countries to implement the standard;**

(b) **Recommend that countries use the updated SNA as the integration framework for economic and related statistics and use the updated SNA in the international reporting of national accounts statistics;**

(c) **Comment on the proposed implementation strategy of the updated SNA covering five modalities: (i) organization of meetings, training seminars and workshops; (ii) provision of technical cooperation; (iii) publication of manuals and handbooks: (iv) sponsorship of research; and (v) statistical advocacy.**

# Annex

## List of chapters in volumes 1 and 2 of the updated System of National Accounts

**Volume 1**

*Part 1: Introduction and overview*

Chapter I Introduction

Chapter II Overview

*Part 2: Accounting conventions*

Chapter III Flows, stocks and accounting rules

Chapter IV Institutional units and sectors

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**Items for discussion and decision: integrated economic statistics**

# Friends of the Chair on integrated economic statistics

## Note by the Secretary-General

In accordance with a request of the Statistical Commission at its thirty-seventh session,** the Secretary-General has the honour to transmit to the Statistical Commission the report of the Friends of the Chair on integrated economic statistics. The report presents a concept paper on the modalities of the integrated approach to economic statistics and includes recommendations by the Friends of the Chair arising from the concept paper. The Commission may wish to comment on the concept paper and the recommendations.

* E/CN.3/2008/1.

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# Report of the Friends of the Chair on integrated economic statistics

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# I. Introduction

1. The idea of developing and achieving an integrated international statistical programme or an integrated system of international statistics has quite a long history in United Nations Economic and Social Council discussions, leading to such Council resolutions as 1306 (XLIV) and 1566 (L). The most recent development was the submission by the Secretary-General to the Statistical Commission at its thirty-seventh session, held from 7 to 10 March 2006, of a report presenting a proposal for the establishment of an integrated programme on economic statistics and a light coordination mechanism among the various groups dealing with such statistics (E/CN.3/2006/5). The report was based on the recommendations of expert groups meetings, organized by the Statistics Division, in the fields of distributive trade, industrial statistics and economic census.

2. At its thirty-seventh session, the Statistical Commission endorsed the concept of an integrated approach to economic statistics and recommended its operationalization with respect to national economic statistics programmes. The Commission also recommended the establishment of a Friends of the Chair Group, to prepare a concept paper on the modalities of the integrated approach to economic statistics, including the feasibility of establishing a mechanism to improve coordination among international organizations and work groups engaged in economic statistics (see E/CN.3/2006/32). At its thirty-eighth session, the Commission took note of a progress report summarizing the initial activities of the Group (E/CN.3/2007/8). Its composition is contained in the annex.

3. When the Friends of the Chair Group started its work, late in 2006, it soon appeared that there were diverging views on several fundamental issues, such as the concept of "economic statistics", the scope of the integrated approach to economic statistics and the role of international macroeconomic statistical standards in that context (*System of National Accounts 1993* (1993 SNA), *Balance of Payments Manual*, fifth edition (BPM5), *Government Finance Statistics Manual 2001* (GFSM 2001), and *Monetary and Financial Statistics Manual 2000* (MFSM 2000)). An issues paper drafted by the Moderator and endorsed by the Group in March 2007 helped to delineate better the concept of integrated economic statistics and paved the way for its operationalization. A high-level work session, held in June 2007 in Berne, co-organized by the Moderator and the Statistics Division, further elaborated on those intermediate results.[1]

4. The conclusions of the work session and written contributions from several participating countries and organizations were the main inputs for the concept paper drafted by the Moderator contained in the present report. The concept paper went through two rounds of consultation in the Group and was amended by the Moderator to take into account the comments made to every possible extent.

5. For the purposes of the present report, integrated economic statistics are defined as "statistics within one conceptual framework and free of statistical discrepancies". Operationalizing that definition involves essentially harmonizing selected aspects of economic statistical standards, (re)designing statistical

[1] The documents, presentations and summary conclusions of the work session are available at: http://www.bfs.admin.ch/bfs/portal/en/index/institutionen/int_coop/un/integratedecostat.html.

production processes and implementing supportive institutional arrangements.[2] The present concept paper is structured around those aspects. It attempts to identify building blocks and a few guiding principles for integrating economic statistics while allowing for different stages in the integration process and taking into account specific circumstances of different countries.

## II. Need for integrated economic statistics

6. There are many good reasons to treat the different domains of economic statistics not only as statistics in their own right, but rather as interrelated statistics so that they form a consistent and coherent statistical information system. The main reason is that users need such an integrated approach. At any point in time, users expect the statistical information on a particular segment of the economy to relate to a broader context, namely the overall economy. Consistency in the statistical information delivered throughout the business cycle, albeit increasingly detailed, is also important to them. Any shortcomings in providing the consistent and coherent information users require may lead to misinterpretations and policy mistakes that could be costly for the economy in terms of output, employment and price stability, as well as financial and monetary objectives.

7. Integrated economic statistics entail several benefits for data users, data providers and statistical agencies, summarized below:

(a) They meet the demands of users better, mainly as regards data consistency,[3] and therefore increase the value of statistical information;

(b) They make it easier for statistical agencies to monitor and improve data quality and facilitate conducting data revisions through the application of integration frameworks;

(c) They facilitate aggregation and comparison among disparate data sets facilitating, for example, the compilation of coherent macroeconomic statistics such as national accounts and balance of payments statistics;

(d) They facilitate analyses based on microdata coming from different but coherent sources, a must to address key policy issues such as innovation and the impact of globalization;

(e) They make it easier for statistical agencies to streamline statistical production processes and, therefore, make them more efficient;

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[2] The Euro area sector accounts provide a case study of an integrated model. They are based on, but are not the simple sum of, the national accounts of the concerned European Union Member States, and the data conform to accounting conventions, international standards and integration techniques. The European System of Central Banks (ESCB) provides the necessary institutional governance. The ESCB governance structure includes (a) the protection of confidentiality of statistics, (b) a cost-effective approach to new statistics and (c) a medium-term planning strategy. It should also be mentioned that large parts of economic statistics have a legal basis in the European Union, which has a positive impact on the successful harmonization of concepts, and on the compliance with international standards, guidelines and best practices.

[3] It may be argued that integrated economic statistics also meet the demands of users as regards relevance, accuracy, reliability, timeliness, coverage, detail and accessibility of data.

(f) They may reduce the burden on respondents, provided the level of detail is kept constant;

(g) They draw attention to internal constraints on human resources and finances as well as external relations in linking the collections of official statistics to legal mandates and related user interactions through advisory committees.

8. It is necessary to make clear that integrated economic statistics come at a cost. Resources have to be invested in harmonizing statistical standards, in re-engineering statistical production processes and in changing institutional arrangements. It is therefore important to go through a cost-benefit analysis to assess in each case up to which point economic statistics integration makes sense, taking into account all interested parties (data users, data providers and statistical agencies). The objective should be a phased and realistic or optimum integration, not a theoretical or maximum integration, taking into account countries' circumstances.

# III. Integration of economic statistics

9. Integrating economic statistics is about statistical reconciliation, that is, ensuring that the messages statistics deliver are consistent and coherent. It must be so because the underlying reality economic statistics describe, the economy, is one and the same. Statistical reconciliation in economic statistics is a task that is traditionally performed by applying national accounts and other macroaccounting and classification frameworks.

10. We should aim for a three-dimensional integration of economic statistics: horizontal, vertical and temporal. Horizontal integration is about reconciling the various primary statistics on production, trade, labour and consumption, before they enter macroeconomic accounts (national accounts and balance of payments). Vertical integration is about reconciling primary statistics and macroeconomic accounts as well as national and international economic statistics. Finally, temporal is about reconciling short-term and structural economic statistics produced at different points in time but referring to the same phase in the business cycle.

11. The integrated approach to economic statistics involves dealing with conceptual issues, statistical production issues and institutional issues.

## A. Conceptual issues

12. The integration of economic statistics requires the use of a common conceptual framework. That framework exists and is formed by the 1993 SNA. The role of the 1993 SNA as a coordinating framework for economic statistics to ensure not only numerical consistency but also conceptual consistency is well established and was acknowledged by the Economic and Social Council in its resolution 1993/5.

13. The 1993 SNA is based on a set of internationally agreed concepts, definitions, classifications and accounting rules. International macroeconomic statistical standards in specific sectors, such as BPM5, GFSM 2001 and MFSM 2000 are

harmonized with the 1993 SNA.[4] That means that they share a number of common features with the 1993 SNA as regards institutional units and sectors, residence, stocks (assets and liabilities)/economic flows and their integration, accounting and valuation rules.[4] The extension of those features to all economic statistics would be a major step towards integration. It would also be possible for economic statistics to keep their own specific features, provided there were workable links with those of the 1993 SNA.

14. Acknowledging the 1993 SNA as the common conceptual framework for economic statistics does not mean that microdatabases should be made fully compatible with macroeconomic accounts. That is impossible for various reasons. Rather, as the 1993 SNA puts it, "as a general objective, the concepts, definitions and classifications used in economic accounting should, so far as possible, be the same at both a micro and macro level to facilitate the interface between the two kinds of data".[5]

15. In that context it should be mentioned that international recommendations have been adopted on primary economic statistics such as industrial statistics, distributive trade statistics, construction statistics and tourism statistics to collect and publish economic statistics at a detailed level to supplement macroeconomic standards. Both the update of the 1993 SNA and the revisions of various international recommendations on primary economic statistics (industrial statistics, distributive trade statistics, tourism statistics and tourism satellite accounts) are being submitted for adoption by the Commission in 2008. To the extent possible, the revised international recommendations increasingly warrant the compatibility of microdatabases with macroeconomic accounts.

## B. Statistical production issues

16. A major cause of incoherence among economic statistics is that surveys and statistics for different industries or activities are designed independently of each other. The traditional approach to the collection of economic statistics has been to cover different topics and industries in a rolling programme of surveys and censuses spread over several years. The resulting inconsistencies in survey and questionnaire designs can make the integration of economic statistics difficult.

17. The integration of economic statistics creates pressure for all economic data collections to change the objectives of statistical design and development. The objective of accurately measuring the industry or sector remains, but an equally important objective is designing statistics that are consistent with those for other industries and sectors. When designing a collection for manufacturing industries, methodologists will need to think beyond their current work to how it will integrate with other statistical outputs. For example, questionnaires cannot be designed in

[4] The European System of Accounts 1995 (ESA 95, the statistical standard used for national accounts in the European Union) is also fully consistent with SNA 93. It should be noted that differences, largely in terms of reporting frameworks and details, do exist however because each of those standards are designed to meet specific policy variables and analytical needs. The differences are well identified and can generally be reconciled if need be, for example through detailed classifications.

[5] SNA 93, para 1.67.

isolation but must use concepts, definitions and classifications that are used in other economic surveys and administrative collections.

18. The application of consistent classifications to appropriately defined statistical units is essential for the coherence of economic statistics. The challenge lies in ensuring that unit models and classifications are applied consistently across all statistical measures. One way to ensure consistency of units and classifications is to use a comprehensive business register as the vehicle for structuring units and assigning their classifications. If all survey populations are drawn from the business register and all administrative data are matched to it, all data records can take the classifications that they have already had assigned to them on the business register. That ensures that information from different data sources is classified consistently and the problem of a unit being classified differently in different surveys is avoided.

## C. Institutional issues

19. The integration of economic statistics also depends upon legal, institutional, organizational and statistical conditions, all of which differ widely across countries. For that reason it is neither possible nor desirable to propagate one single and detailed implementation approach towards integrated economic statistics. Some guiding principles can, however, be identified and are elaborated upon in the next section of the present report.

20. It is important to make clear that there is no "right" institutional setting for integrating economic statistics, in the sense that both centralized and decentralized statistical systems can achieve the goal. However, channels and bodies must exist and be used to conduct a structured dialogue among statistics producers and among them and both data providers and users at the national level; and a lead agency entrusted with the integration of economic statistics must be identified in the national statistical system, its function (ideally) established by law or by any other binding instruments and its role acknowledged in day-to-day business by other statistics producers.

21. International institutions (international organizations, their secretariats and their steering and working bodies) are equally important for the integration of economic statistics. They are instrumental in facilitating the development and harmonization of statistical standards across the various domains of economic statistics by ensuring coherent and consistent concepts, definitions, classifications, units and valuation rules. They also check and, when necessary, improve the comparability and consistency of data sets across countries. Here the challenge for Member States is two-sided: on the one hand to build their respective national statistical systems on the results achieved in the framework of international institutions, on the other hand to maintain oversight (and also control) of the work performed in international institutions with a view to ensuring the necessary coordination towards the achievement of statistical integration. It is a demanding task that has been on the agenda of the international community for a long time and that requires constantly renewed efforts.

# IV. Production of integrated economic statistics

22. The integration of economic statistics covers all aspects of the statistical production process. The four central elements in that context, which should always be borne in mind, are consistency, coherence, breadth and depth.

23. The first element, consistency, refers to the need to use common concepts, terminology and standards and to defining statistical units uniformly over long periods of time. Consistency within national statistical systems is not a sufficient condition. It must take into account international requirements in order to allow comparability. The second element, coherence, refers to internal linkages and the inter-relatedness of data. It deals, for example, with the ability to establish robust links between enterprise statistics and its constituents (establishments) as well as between economic variables such as exports and production. The third element deals with the breadth of economic statistics programmes, which must tend towards full coverage of the economy. They must be comprehensive and non-duplicative of the business activity of enterprises. The fourth and last element has to do with the depth of economic statistics programmes. That is the part of programmes that deals with issues such as commodity and industry levels of detail.

24. The repercussions of each of those elements for overall statistical systems are numerous and challenging. They require full coverage of the economy, the measurement of economic activities using a very rigorous set of concepts, definitions and standards, and uniformity of detail in order to properly measure economic variables. As well, higher demand for detail puts a lot more pressure on respondents, increasing the importance of using administrative data in building economic statistics programmes.

25. At the different stages of the statistical production process, focusing on five principles may be helpful to integrate economic statistics.

## A. Frame, sampling and coverage

26. This principle is about the use of an unduplicated frame system and of a common sample design, the move towards an enterprise-centric approach to ensure full unduplicated coverage of all economic entities and the extensive use of administrative data in the overall system. The enterprise-centric approach means that, while a statistical agency uses a common sample design to measure economic activity at say, the establishment level, the approach also focuses on enterprises to ensure full unduplicated coverage. In most cases, the enterprise and the establishment are the same. When they are not, it is important to establish coherence between enterprises and their constituents.

27. The concept of integrated economic statistics requires commonality of the framework within which the statistics will be produced. A core element of the framework is the development and maintenance of a central frame. That frame represents the backbone of survey activities. It consists of a suite of files, programs and processes that interface with businesses through direct profiling, survey responses and feedbacks as well as indirectly, through administrative sources such as tax records. The frame has to cover all sectors of the economy.

28. A comprehensive business register is the tool permitting the application of consistent classifications to very well defined entities. That is one of the first preconditions of coherence. Coherence cannot be achieved if entities are classified differently by various surveys. Moreover, failing to update the register on a regular basis will require adjusting survey results constantly. The implementation of a comprehensive central register would not be possible in countries with decentralized statistical systems. In that context, the standardization of surveys would also be difficult. However, where countries confront multiple information taken from various business registers and surveys conducted by different administrative and statistical agencies, greater integration and consistency can be achieved through data-sharing and the integration of key forms and industries or through the coordinated review and design of surveys, such as when they are modified.

29. A comprehensive business register has many benefits for the integration of economic statistics. They are summarized below:

(a) The business register provides a consistent reference point for all standard classifications, which facilitates the integration of statistical outputs by ensuring that classifications are applied consistently across all surveys and statistical outputs;

(b) By matching administrative data sets to the business register, problems with duplications and inconsistent coverage of administrative data sets can be reduced to a minimum;

(c) Selecting the samples for all economic surveys from the business register ensures coherence between different surveys and reduces the need for coverage adjustments. It is also very useful in monitoring the response burden;

(d) Administrative and survey data can be combined in a statistical output with the business register ensuring coherence between data sources. For example, the business register can be partitioned with tax data being used for one partition and survey data used for the rest. A unit that is included on two different data sources can be excluded from whichever is appropriate to ensure that coverage is coherent;

(e) When undertaking supply and use balancing, national accountants be confident that information from different sides of the accounts is derived from data sources with consistent population coverage and classifications;

(f) The time series of the demographic information on the business register allows the growth and development of businesses to be analysed. It can be used to ensure that longitudinal microdata analysis is consistent with other economic statistics.

30. With long-term objective of a unified comprehensive statistical register, less advanced statistical systems should take intermediate steps to create a more comprehensive coverage of enterprises through a combination of a limited statistical register (e.g. on the basis of certain types of ownership and legal status) complemented by a non-overlapping area frame. Progressively, the coverage of the statistical register could be extended based on the institutional strengthening of the statistical system to maintain a certain scope. Evidently, there is a limit on the ability of less advanced statistical systems and developing countries with large

informal sectors to include small and microenterprises in their statistical registers, owing to their sheer number.

31. The need to cover all sectors of the economy in statistical programmes is costly and imposes a high response burden. Consequently, relying exclusively on surveys would represent a major barrier to measuring overall economic activity. Even though administrative data do not always align very well with the needs of statistical agencies, they can alleviate substantially costs and response burden issues. To use administrative sources, the central register must contain fields allowing administrative sources to link with entities structures in order to produce the various outputs required by statistical programmes. Linking legal structures and operational structures and being able to derive statistical structures is a basic step towards integration.

32. For operational reasons, a unique identifier should be attributed to each entity on the register. Ideally, that identifier should be determined taking into account the business number used by administrative authorities. That would ensure administrative data are applied correctly to the different entities on the register. Depending on the level of detail available, the unique identifiers should allow administrative data to be mapped to entities on the register at the enterprise level or for its constituents. Unique identifiers are very useful when performing coherence analysis between the enterprise and its constituents. Consistent entity definition across statistical programmes would also help in cross-checking data from various sources. Revenue and employment data are one example.

## B. Content and collection

33. This principle emphasizes the needs to use common concepts, terminology and classifications, as well as the value of a comprehensive annual economic survey.

34. Without uniformity comparability is not possible. Major differences in statistics arise from the use of different basic concepts, such as those related to units or transactions. Harmonization is valuable as it reduces those differences and results in a more coherent set of data outputs. Content and collection is the part of the overall strategy where statistical agencies can eliminate duplicate data requests through a strategy centred on enterprises and questionnaires with a common look and feel. The trend towards electronic collection would generate its own kind of standardization, including across agencies (with statisticians working with tax authorities and regulators). Standardization also promotes the development of a special collection strategy as regards important businesses.

35. Finally, the strategy requires a "chart of accounts" or the building of mappings between business accounting data and variables required for the statistical programmes. The chart of accounts is a tool to link business accounting with various accounting frameworks supported by statistical agencies. It greatly facilitates linkages between business accounts, balance sheets and income statements, primary economic statistics and national accounts variables. That helps not only in the design of survey questionnaires, it also provides a good tool for mapping administrative data sources to statistical agencies needs.

36. One way to ensure statistical consistency is to develop an integrated economic collection that covers the entire economy. Once a comprehensive business register is

in place, economy-wide economic collection becomes feasible. A comprehensive annual economic survey interspersed with infra-annual collections has the following benefits:

(a) A collection that covers the entire economy can provide all the information needed for both national accounts and other economic statistics;

(b) Consistent data are collected from across the economy with a core set of variables being collected from all units, whether in annual or infra-annual collections;

(c) Survey questionnaires can be designed to collect both standard accounting variables and the additional information needed to calculate all core national accounts variables;[6]

(d) Survey variables can be aggregated to national accounts variables prior to data editing, allowing analysts to check and explain unusual movements in both national accounts variables and accounting aggregates as a normal part of data checking and consequently, minimizing the need for national accountants to check unit record data;

(e) The combination of a comprehensive business register and an annual economy-wide economic survey can eliminate the need for benchmarking to five yearly economic censuses;

(f) Consistency between annual and infra-annual collections is taken into account in the design of collections.

## C. Processing and post-collection

37. This principle emphasizes the importance of using common generic processing systems and methods such as common edit and imputation methodologies. It also promotes the use of a centralized data and metadata repository to enhance analytical activities. Providing output is not sufficient; it must be accompanied with analytical findings and metadata to be provided to those involved in incorporating the data in such frameworks as national accounts.

38. An important goal of the integrated approach is the creation of a suite of centralized processing tools to improve data quality and timeliness, while reducing costs. Data processing represents a very expensive step in survey-taking. If too much emphasis is put on micro-editing and manual intervention, timeliness could be negatively affected and bias could be generated. Processing systems should be integrated as much as possible to reduce maintenance and development costs. There are four centralized tools to be considered by statistical agencies:

(a) A single metadata system for the different surveys;

(b) Centralized collection operations;

[6] For example, the questionnaires collect wages and salaries paid. They also collect the other components of compensation of employees as defined in SNA 93. That means that compensation of employees can be derived by aggregating the appropriate line codes for each unit, rather than adjusting "Wages and salaries" at the aggregate level to take account of the estimated difference. The approach ensures coherence between national accounts and business statistics.

(c) Harmonized methodologies for sampling, editing, imputing and estimating;

(d) A single data repository, which increases data security and makes data more easily accessible to authorized users.

39. The metadata system helps to harmonize all methodology concepts. It facilitates the creation of modular questionnaires sharing common revenue and expense sections. It simplifies post-processing by providing common editing and imputing strategies.

40. In recent years, an ever greater emphasis has been placed on statistical agencies publishing statistics accompanied by adequate metadata. Many statistical agencies have grounded institutional policy in the provision of metadata in their dissemination standards and author guides. The primary responsibilities of statistical agencies regarding metadata, therefore, relate to the following areas:

(a) The compilation of up-to-date metadata to enable users to understand the strengths and limitations of the statistics they describe;

(b) Easy access to metadata by users via a range of different media (website, paper publications, CD-ROMs, etc.);

(c) The active linkage of metadata to the statistical tables and graphs they describe and vice versa;

(d) The use of a common set of methodological items (or metadata elements) in metadata disseminated. If adopted by statistical agencies, the widespread use of the Statistical Data and Metadata Exchange cross-domain concepts would enhance the possibility of more efficient metadata interchange;

(e) The use of a common terminology, notably through the rigorous use of terminology imbedded in the various international statistical guidelines and recommendations.

41. The quality, coverage and usability of administrative data differ widely among sources and across countries. If possible, administrative data should be used during the processing phase to impute missing data or to validate survey results. Some countries will also be able to use administrative data to replace survey data for some parts of the population. Unfortunately, administrative data sources are generally not designed to provide the full range of disaggregated information that statistical surveys deliver. For example, administrative data may not delineate between revenues derived from economic production and other revenues, or essential variables may not be recorded by administrative processes. Consequently, the role of administrative sources in the overall statistical system may be to collect information for smaller enterprises or establishments for which more detailed breakdowns of variables are not material. In most countries, surveys will remain necessary to collect information from complex enterprises (enterprises with multiple establishments operating in different industries or regions).

42. The centralization of operations requires an operational structure that reflects the integrated approach. Decisions to modify any aspect of the content or processing have repercussions on many activities within the statistical system. As a consequence, statistical agencies should pay particular attention to interactions

involving frame operations, sampling, tax data operations, content and collection, as well as processing activities.

## D. Outputs

43. This principle deals with the choices statistical agencies must make in dealing with timeliness, accuracy and detail (relevance). Ideally, at this point incoherencies have been identified and eliminated and data, including analytical findings, can be provided centrally.

44. The choice between timeliness and accuracy is a difficult one. While clients need output very rapidly after a reference period, statistical agencies require time to ensure accurate results. Whatever the approach is, as new information becomes available, statistical agencies will be releasing revised statistics. Consequently, in order to help users understand the value of the statistics, a rigorous revision process must be put in place. Revisions should follow standard, well-established and transparent procedures. The process could be monthly, quarterly, annual or for historical time series. The process should be clear about the reasons for revisions, from late response to benchmarking. The proper communication of major statistical revisions is an important element of a revision policy and should include good practices on pre-announcement and documentation.[7] The status of data should be clear (preliminary, final, etc.) Analytical tables quantifying revisions should be provided to users.

45. Analysis reoccurs throughout processing and is essential to ensure quality. Information accumulated during each step of processing should be stored and made available to analysts. Analysts can greatly benefit from access to microdata used to derive macroeconomic variables. Also, analysts can be much more efficient and accurate if they can easily compare data and aggregate statistics across industries or institutional sectors or other aspects of economic interest. To do so, analysts need access to integrated databases. A central warehousing technology allows such an analytical environment and its use should be promoted within statistical agencies. It is a tool, and approach, that requires discipline in terms of implementing standards and classifications, exactly what is required for integrated statistical systems.

## E. Feedback from national accounts

46. National accounts are compilation and analytical tools that bring together a great wealth of economic data with the aim of delivering consistent macroeconomic results. Gross Domestic Product (GDP),[8] for example, relies on three compilation methods: production, expenditure and income methods. The three methods use different economic statistics but they aim at delivering one and the same estimate. Therefore, when combining data, national accountants have to use harmonized and unique classifications of producers, users and income receivers, as well as harmonized and unique classifications and definitions of commodities, industries,

[7] See *Guidelines on communication of major statistical revisions in the European Union*, 2007.

[8] GDP combines, in a single figure and with no double-counting, all the output (or production) carried out during a given period by all the firms, non-profit institutions, Government bodies and households that are residents of a given economic territory.

transactions, income categories, assets and accounts. They may also have to make up for missing data and adjust the available data to confirm to macroeconomic accounting identities.

47. Combining the different datasets allows light to be shed on inconsistencies, incompleteness and other shortcomings of economic data, and the causes of those problems to be analysed. National accounts are powerful diagnostic instruments that assess the existing level of integration of economic statistics and allow a strategy to be devised for their further integration. Therefore, it is important to allow national accountants, as integrators of primary economic statistics, to provide proper feedback to the survey statisticians producing the statistics.

# V. Institutional arrangements for managing integrated economic statistics

48. The main reasons why institutional arrangements are important in the context of integrated economic statistics are the following:

(a) In every statistical system, statistics are produced outside the national statistical agency by other Government departments and quasi-government organizations. Those statistics must be integrated with the statistics produced by the national statistical agency;

(b) Other organizations provide some of the input data that are used by national statistical agencies. As the use of administrative data increases, national statistical agencies become more dependent on data from sources outside their direct control. Arrangements are important to ensure that administrative data are collected in a way that is consistent with the needs of statisticians;

(c) The integration of economic statistics is more effective if one agency has responsibility for leadership of the national statistical system. Ideally, that role should be established in law or some other binding instrument but, regardless of the legal framework, the lead statistical agency has to demonstrate statistical leadership to ensure that its role is acknowledged in day-to-day business by other statistics producers.

49. The following institutional arrangements are essential for supporting the role of the lead statistical agency: advisory committees, relationship meetings, memorandums of understanding and service level agreements.

## A. Advisory committees

50. A strong system of advisory committees is important for the integration of economic statistics. They can support coherence in economic statistics by promoting the use of national and international statistical frameworks and classifications. They can encourage the development, promotion and implementation of standard questionnaires and terminology. Users of statistics represented on advisory committees are generally strong advocates of integrated economic statistics.

51. Advisory committees can also support sound decisions by ensuring that all stakeholders are taken into account in the development of statistics. Users and producers can ensure their needs are addressed by participating in the development

of national statistical standards. For example, if consultation makes the redeveloped classifications more relevant to the producers of statistics they are more likely to be adopted widely.

52. Advisory committees should represent a broad range of economic and statistical interests, including users, producers and suppliers of official statistics. Members should be selected for their knowledge of economic and statistical issues, their interest in the development of economic statistics as a coherent system and their standing in the statistical or economic community.

## B. Relationship meetings

53. Regular relationship meetings with Government departments and organizations that use and produce statistics have a number of objectives, including:

(a) Coordination between the producers and users of statistics;

(b) The monitoring of progress on bilateral projects;

(c) Coordination of the planning of joint work between organizations;

(d) Forums for the discussion of new ideas and resolution of problems;

(e) The resolution of data issues relevant to participating organizations.

54. Relationship meetings should work at two levels to support the integration of economic statistics. At the expert level, working groups and practical relationship meetings develop statistical work and resolve practical problems. That must be supported by management-level relationship meetings that build a widespread commitment to integrating the national statistical system and deal with strategic problems. Both types of meetings are essential for the integration of economic statistics.

## C. Memorandums of understanding and service level agreements

55. National statistical agencies are making increasing use of administrative data supplied by other organizations. Relationships with supplier organizations are very important, because disruptions in supply can seriously impact the quality of economic statistics. In the short term, the greatest risk is that data might not be delivered on time to meet the timetable for the production of regular statistical outputs. In the longer term, the risks relate to the quality of the data supplied. In that respect, the goal is to ensure consistency between the definitions and classifications used by supplier organizations and those used in economic statistics.

56. An important benefit of memorandums of understanding and service level agreements is that they can consolidate and make cooperation with supplier organizations more predictable. They can, in particular, ensure early warning of changes to administrative procedures that could affect the quality of data used for the production of statistics. More generally, memorandums of understanding and service level agreements can deal with the following issues:

(a) Conditions for the supply of administrative data;

(b) Timetable for the supply of data;

(c) Confidentiality and security of data;

(d) Consultation about new uses of administrative data;

(e) Resolution of disputes;

(f) Consultation before changes are made (variables, administrative forms, etc.).

57. Finally, statistical agencies should make efforts to inform employees of supplier organizations of their role in the overall statistical system. It is important for those staff to understand the role administrative data play in the overall statistical system of their country. Moreover, it should be clear to those staff that the data provided to statistical agencies must be of a high quality.

# VI. Conclusion and recommendations

58. The Friends of the Chair Group has reached the following conclusions:

(a) The integration of economic statistics is about statistical reconciliation, that is, ensuring that the messages statistics deliver are consistent and coherent. Reconciliation covers primary economic statistics and macroeconomic accounts, short and long-term economic statistics and national and international economic statistics. In essence, it involves dealing with conceptual, statistical production and institutional issues. Human resources issues (increasing the awareness of statistical agencies' staff concerning the impact of their work on the overall statistical system) and information technology issues (adopting common technology) also play a role and must be considered in that context;

(b) The integration of economic statistics is mainly driven by users' demand for data consistency and coherence;

(c) It is neither possible nor desirable to propagate one single and detailed implementing approach towards integrated economic statistics because national statistical systems are different. There are, however, some general guiding principles (see section IV);

(d) Institutional arrangements at both the national and international levels are important for the management of integrated economic statistics and should be part of the corresponding reform programmes.

59. The Friends of the Chair Group makes the following recommendations:

(a) **The role of the 1993 SNA as a coordinating framework for economic statistics (including at the micro level) must be strengthened and taken into consideration in designing the implementation strategy for the updated SNA by the Intersecretariat Working Group on National Accounts;**

(b) **The Statistical Commission and the Committee for the Coordination of Statistical Activities, with the assistance of the Statistics Division, must strengthen the coordination among international institutions working in the field of economic statistics with a view to furthering the integration of economic statistics;**

(c) **The Statistics Division, in consultation with the Statistical Commission as regards terms of reference and in cooperation with the concerned international and supranational organizations as regards substantive**

**work, should take the lead in developing more extensive and practical guidelines that would include case studies on practices of integrated economic statistics, drawing on the material assembled and contributed for the work session of the Friends of the Chair Group and the drafting of the concept paper;**

**(d) Further work should be pursued by the Statistics Division to guide the selection of areas in statistics where further integration would be useful.**

# Annex

## Countries and organizations participating in the Friends of the Chair Group

Australia, Canada, India, Lithuania, Mexico, Netherlands, New Zealand, Pakistan, South Africa, Switzerland (Moderator), United States of America.

The European Central Bank, Eurostat, the International Monetary Fund, the Organization for Economic Cooperation and Development, Statistics Division.